Should You Worry About a Tech Bubble in 2021?

### Description

Last year was a treat for tech stocks as many cloud companies that promote stay-at-home culture saw their revenue double every quarter. This led to a tech stock rally that pushed the overall stock market to a quick recovery even when the economy was suffering. Some of the biggest beneficiaries were **Shopify** (TSX:SHOP)(NYSE:SHOP) and **Lightspeed POS**. They surged more than threefold between March and December to valuations that are high even for a growth stock.

default watermark

Many cautious investors warned that a tech bubble is in the making after 21 years. There are many similarities between the 2000 dot.com bubble and the 2020 tech stock rally. But times have changed, and so have companies. Should you worry about another tech bubble in 2021?

## What happened in the 2000 tech bubble?

The stock market crashed in 2000 after the internet bubble burst. Investors had poured in millions of dollars of cheap and easy capital they got from banks and invested in internet startups in the late 1990s. Many of these startups didn't generate revenue, profit, or even had a finished product. This speculative investing sent tech stocks to valuations that they may not reach for several years. The valuation was on hope or speculation of exponential growth.

The internet bubble burst when the Fed tightened monetary policy and many leading tech companies sold their stocks. This stirred panic among investors, and the **Nasdaq Index** fell to 1,140 by October 2002 after surging fivefold in five years to over 5,000 on March 10, 2000. It took Nasdaq 15 years to recover, and some stocks like **Intel** have to date not hit their 2000 high.

After 20 years, the market is showing traits similar to the dot.com bubble. Tech stocks have surged exorbitantly in the last five years. They got a boost during the pandemic. Shopify stock is trading at 75 times its sales per share and 936 times its earnings per share.

## Is another dot.com bubble in the making after 20 years?

Can tech stocks sustain these high valuations? In 2000, the dot.com bubble burst because tech stocks reached a valuation they couldn't sustain. Investors had high hopes for the commercialization of the internet. But what they didn't see was internet penetration was low as it was not affordable or easily accessible.

But the 2020 tech stock rally is different. Shopify and Lightspeed are seeing 60%-90% revenue growth. Although they have barely made profits, they are scaling, and people are adopting their technology. The 5G rollout and internet penetration even in the remote areas will support this growth. And **Amazon** has already proved that the e-commerce model works. Hence, it is clear that there won't be a tech bubble like 2000.

What *is* concerning is their high valuation. Most of the money injected in tech stocks is the benefits money the government gave Canadians to fight the pandemic. In September 2020, the Canada Revenue Agency (CRA) switched from emergency benefits to recovery benefits.

At that time, Shopify stock plunged 23% in less than a month. There is a possibility of another plunge in April. The Canada Recovery Benefit (CRB) will end for those who have been claiming it regularly.

As the free cash from the stimulus money fades, tech stocks could see a plunge. Then how can you profit from tech stocks?

default watermark

## How to trade in tech stocks

Warren Buffett says trade thinking that there will be a market crash but not knowing when. While many investors burnt cash in the dot.com bubble, it doesn't mean that tech stocks are bad. These stocks have made many investors millionaires. Even Buffett's largest holding is in a tech stock **Apple**. The trick is to enter at the right time.

Shopify and Lightspeed stocks are trading at their record highs on the back of strong holiday season sales. This is a good time to sell these stocks as they may not be able to sustain the pandemic-level growth this year. A slowdown in revenue growth will diminish short-term investors' enthusiasm.

If these stocks are at the peak of a tech bubble, now is the time to encash your profit. Buy these stocks when they plunge after the free fiscal money is gone.

**CATEGORY**

1. Coronavirus
2. Investing
3. Tech Stocks

**TICKERS GLOBAL**

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

**PARTNER-FEEDS**

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Yahoo CA

**Category**

1. Coronavirus
2. Investing
3. Tech Stocks

**Date**
2025/07/07
**Date Created**
2021/01/11
**Author**
pujatayal

default watermark

default watermark