3 Reasons I'm Shifting From Tech Stocks in 2021

Description

I've been a tech investor for as long as I can remember. In fact, the first five stocks I ever bought were all cutting-edge tech stocks. Over the past 12 years, the majority of my portfolio has been devoted to this sector. However, this is the first time I'm considering shifting away to other sectors.

Here are three reasons I'm trimming my exposure to tech stocks and the sectors I'm moving my hard-earned money to.

Vaccine rollout

Countries across the world are rolling out the vaccine at a blazing pace. At the time of writing, 30% of Israel's population has already had their first dose. The ratio is far lower in Canada, where just 1.6% have had their first dose so far. Nevertheless, it seems likely that we could see the economy reopened by summer.

As people return to their normal lives, they could have less time to stream movies or shop online. This means e-commerce companies, digital media platforms and software firms could see a pullback in sales during the second half of 2021.

Tech stocks valuations

Despite this pullback and slowdown in growth rate, tech stocks are priced to perfection at the moment. **Shopify** is a good example. The company has had a tremendous growth spurt but the stock is now trading at a ludicrous 56.85 times sales per share. The company will have to boost sales *tenfold* to justify this valuation.

Several other tech stocks are in a similar position. Valuations are elevated across the board and most companies will fail to ever live up to these expectations. A pullback in tech stocks is nearly inevitable now.

Beaten down stocks

Meanwhile, traditional sectors of the economy remain undervalued. Airlines, tourism, hospitality and real estate have all suffered immensely during the pandemic. Their valuations reflect investor pessimism, but overlook the light at the end of the tunnel.

As vaccines are rolled out and the economy reopens, these stocks should recover.

Top pick

My top “recovery stock” pick is **Fairfax India Holdings** (TSX:FIH.U). Managed by legendary investor Prem Watsa, this is a holding company with major stakes in several private and public firms across India. Their holdings include one of India’s largest airports, the national stock exchange and an emerging bank.

India’s economy has suffered greatly during this pandemic. As a consumption-driven economy, the lockdowns and health crisis have suppressed stock valuations. However, India has commenced the world’s largest vaccine rollout and could bounce back strongly in the months ahead.

This economic rebound could be reflected in Fairfax’ stock price. India’s stock market has already rebounded 90.8% from March lows. Consumer, retail and financial stocks are surging. Meanwhile, Fairfax’ underlying portfolio companies could be worth more than they’re reported on the books.

At the moment, Fairfax India’s stock is trading at a 30% discount to book value. As Indian stocks continue to surge, this discount could broaden. That makes Fairfax India the ultimate rebound stock for Canadian investors.

Bottom line

Tech stocks are overvalued and could be poised for a pullback. I’m shifting allocations to Fairfax India Holdings.

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