Stock Market Crash 2021: Should You Care About Stretched Valuations?

Description

2020 marked one of the steepest recoveries in stock market history. The strong buying in equities following the March selloff led to a stellar rally in most TSX-listed stocks, making them expensive on the valuation front.

As valuations look stretched and uncertainty lingers on, many believe that the stock market could crash in 2021.

While I agree that Canadian stocks are looking expensive on valuation, I do not expect the market to crash anytime soon. I believe the worst for stocks is behind us, and the valuations could appear reasonable with the recovery in demand and acceleration in growth.

The expected economic expansion and revival of demand could continue to push equities higher in 2021. So, investors shouldn't worry about stretched valuations and continue to accumulate high-quality stocks on a healthy pullback. I have shortlisted two high-growth TSX stocks that have witnessed a pullback in the recent past, presenting an excellent buying opportunity for long-term investors.

Dye & Durham

Dye & Durham (TSX:DND) delivered stellar returns since it listed on the Toronto Stock Exchange on July 17, 2020. The stock surged about 242% in 2020 and made investors rich. The company's strong fundamentals, upbeat financial performance, and positive investor sentiments led to a rally in Dye & Durham stock.

However, the increase in COVID-19 cases and fear of a stricter lockdown led to a healthy correction in its stock. Dye & Durham stock has decreased about 16% in January so far, while it is down about 21% from its 52-week high. I believe investors should use this pullback to accumulate its shares. The company remains well positioned to deliver exceptional returns in 2021 on the back of the continued momentum in its base business and its recent acquisitions.

Dye & Durham is likely to benefit from its strong and diversified client base, long-term contracts, and high client retention rate. Moreover, its recent acquisitions are expected to accelerate its growth rate further. The company could continue to pursue opportunistic acquisition opportunities in 2021, which could lift its stock higher.

Lightspeed POS

Lightspeed (TSX:LSPD)(NYSE:LSPD) stock soared 149% in 2020, thanks to the structural shift in the selling models. The coronavirus pandemic accelerated the pace of shift toward omnichannel selling models, which led to a surge in its gross transaction volume, top line, and payment revenues. Notably, increased demand for Lightspeed's payment platform drove 300% growth in its payment revenues during the last-reported quarter.

With positive secular industry trends, I believe the momentum in its business is likely to sustain in 2021 and could continue to drive its revenues. Meanwhile, innovation and up-selling of high-value products should drive its average revenue per user and support its margins. Furthermore, its recent acquisitions are likely to drive its customer base, expand its geographical reach, and accelerate its growth.

Lightspeed stock has declined about 11% from its 52-week high and presents a good buying opportunity.

Final thoughts

Both these companies delivered stellar returns in 2020, and the recent pullback is an excellent opportunity for investors to become constructive. Dye & Durham and Lightspeed have multiple growth catalysts that could continue to drive these stocks higher in 2021.

CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:LSPD (Lightspeed Commerce)
2. TSX:DND (Dye & Durham Limited)
3. TSX:LSPD (Lightspeed Commerce)

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