



Why the Tech 'Bubble' Is Still Undervalued

Description

A potential market crash has many investors worrying over tech stocks. Tech companies are still relatively new to the stock market. Yet even during this time of uncertainty, when investors like Warren Buffett worry about where to invest, Buffett and others seem to find room for tech stocks.

Sure, there *is* momentum around tech stocks, but if you look at a few key factors you'll be able to notice that this industry is still undervalued. Here I'll go into why, and what investors should look closely for when deciding on their next tech investment.

What exactly *is* a tech stock?

Tech stocks seem to have a whole lot of industries under the tech umbrella — from e-commerce to real estate, Software-as-a-Service (SaaS) to cryptocurrency. But that right there is the beauty of tech stocks and the one key element that takes it out of the “bubble” category.

Every company needs tech. That's the point. The world is changing, no more so than right now during this pandemic. Companies, even countries, of all sizes must create a tech presence and use tech to their advantage if they hope to be competitive. And tech stocks have risen right along with this change. So if that's the case, with every company and every type of tech out there, what should investors look for?

Don't get emotional

Think like Warren Buffett. Buffett doesn't use his gut, he uses fundamentals. Because many tech stocks don't have the decades long history that other companies do, you need to look at fundamentals that have the potential to continue well into the future. For that, you want to look at revenue.

Right now investors are excited about companies that are growing incredibly fast, like **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) for example. The company continues to acquire businesses, develop partnerships, and come up with brand new ways of bringing on new clients. I'm not saying this makes it

a bad buy. In fact, the company's recurring revenue through subscriptions is what makes it a great buy.

This recurring revenue is what will keep the company strong a decade from now, not the excitement about Shopify Fulfillment Centres. And it's also this ability to grow that should help investors realize: there is so much more room to grow! As I mentioned, tech can be a part of everything. So a stock like Shopify really has no place to go but up.

Hold on long term

Once you identify companies that have strong [fundamentals](#), think strong revenue that is reliable and high gross margins, hold onto them. Don't look for a quick turnaround, but stable companies that are just like anything else in your portfolio. Looking at Shopify stock again, its revenue grew 96% year over year during the last earnings report, with subscriptions up 48%, merchant solutions up 132%, and a strong gross margin steady at 53%. These are all signs the company is stable and can support growth.

Using Shopify stock again as an example, look at just the last five years in stock performance. The company has grown 4,877% as of writing! Sure, you could have gotten out a hundred times and made a killing. But you can always sell a small stake and then buy back in if you need the cash. But, like Warren Buffett, if your goal is long-term growth you should look for long-term buys.

That goes for tech stocks. Find companies that are going to be around well into the [future](#), not just what's trending or exciting. That's why I continue to love Shopify stock, even at sky-high prices. Every company goes through dips, but Shopify stock will continue to grow – if at a slower pace – for decades because of its recurring revenue and gross margin.

Foolish takeaway

When you really think about it, there is no tech bubble – not like there was with the dot-com bubble at least. Tech stocks are doing well because it's the way the world is going. While the market can provide some excitement in the short term, long-term it weighs these industries and what's strong stays, what's not goes.

If you're looking at tech stocks for long-term holds, simply dig into reliable revenue and gross margin to find those diamonds that will still sparkle a decade from now.

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