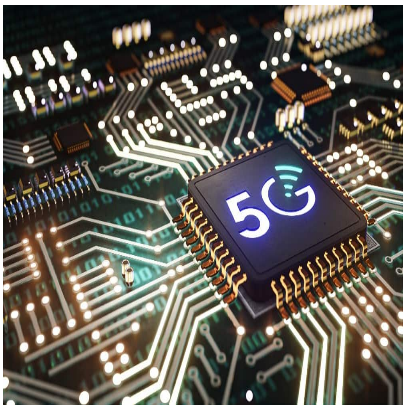

Tech Stocks Plunge: Should You Sell Growth Stocks Before the Rotation Intensifies?

Description

What a nasty tech-to-value rotation we had this Monday. The **NASDAQ 100** crumbled like a paper bag, shedding just over 2.6% of its value as the value-heavy **TSX Index** crept higher, ending the day in the green. Indeed, it was a big day to be a Canadian commodity investor and a bad day to be overweight tech, as so many beginners may have been after the recent run-up in growth.

Indeed, such a divergence between growth and value is quite rare.

With bond yields creeping higher, the growth-to-value rotation may not yet be over. And there's still a chance that the recent bout of negative momentum could act as a pin that pricks the prominent growth bubbles that have floated around the sector.

Is there a bubble in the tech sector? And could it burst in 2021?

Next-generation tech has been the go-to play, as the appetite for risk has increased considerably amid the pandemic. Disruptive tech, Bitcoin, and all the sort have been bid up by euphoric investors who seem to be neglecting the valuation process, ready to pay any price Mr. Market asks for at any given instance.

While "riskier" high-growth tech plays have been unstoppable thus far, with momentum stocks luring in the speculate crowd who's more than willing to play the game of greater fools (based on the greater fool theory), I don't think we're in for a repeat of the events that unfolded around 22 years ago.

Why?

While tech may be "expensive" today, overall, they're not nearly expensive as they were back in 1999 — not even close. Heck, most high-growth tech stocks, I believe, deserve higher multiples, given their growth profiles and the rock-bottom interest rate environment that warrants paying up a bit more for high-quality growth.

Unlike in the late 1990s, we have numerous disruptive firms that are backed by real fundamentals. The NASDAQ's tech leaders are massive disruptors. They make a compelling case for why the tech-heavy NASDAQ should be viewed as the next **S&P 500** through the eyes of young investors who seek to skate where the puck is headed next in this era of intense technological disruption.

Not all tech stocks are bubbles

Mega-cap tech behemoths like **Amazon.com** and **Shopify** (TSX:SHOP)(NYSE:SHOP) are not only pressuring firms within their industries (retail in the case of Amazon), but their circles of competence appear to be growing at a rampant rate.

Such dominant tech titans may sport valuations on the higher end (Shopify trades at an unprecedented 57 times sales, yet analysts still seem more than willing to hike their price targets). But I believe they deserve to trade a colossal premium given the width of their disruptive potential and the sheer width of their moats.

While e-commerce kingpins like Amazon and Shopify will probably never trade at a multiple that'd be considered cheap through the eyes of Warren Buffett-style value investors, that doesn't necessarily mean they're perpetually overvalued. When compared to their growth profiles, each firm's exorbitant multiple is justified.

Sell growth and tech for value?

Unless you're holding a hot stock that's surged above and beyond your own estimate of its intrinsic value or if your portfolio's allocation is lacking in value names, I wouldn't look to ditch growth for value, even as bond yields creep higher.

There's a high chance that Monday's recent rotation is almost over and would rather be a buyer of growth bargains on the dip. Shopify is a top pick that plunged nearly 4% on the day just days after management pointed to softer guidance moving forward.

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