March Pullback: I Told You So

Description

I hate to be the one to say I told you so, but… I told you so. If you've been following my writings for a while, you may have seen that back in December I stated when the next market crash would happen. While the entire market has not crashed, the tech sector is going through a major pullback that some may categorize as a crash. This could lead to a full on crash in the future, followed by a major rebound.

So let's look at what happened, and why.

The prediction

Back in December 2020, I stated that there would be a crash in January, f0llowed by more of a crash in March. This came from vaccine euphoria driving the market upwards, which did happen. Stocks climbed and climbed, but in the new year on the back of that euphoria, investors wanted to take their earnings. That happened a bit in January, especially in the tech sector.

March has meant earnings season for both quarterly and yearly reports. Across the board as tech stocks announce earnings we have seen massive drops. **Kinaxis Inc.** (TSX:KXS) recently dropped 20% after delivering strong earnings! **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) experienced the same thing.

Again, while this isn't a market crash, it's certainly a major pullback in the tech sector. So here's where I was wrong. I had stated that yearly earnings would show a bad year and a big whole that would need digging out by companies practically across the board. This would trigger a market crash. This isn't what happened.

The reality

Investors in the tech sector feared that an all-time high had been reached. Shareholders started selling off companies like Kinaxis and Shopify and other strong companies out of fear, not fundamentals. Management indeed stated that 2020 was a stellar year, and that it's unlikely to see another year like it. That means 2021 and beyond will resemble pre-pandemic levels.

Kinaxis, Shopify, and other strong tech stocks have seen major growth over the last several years. The reason these companies exploded remains true today: they are necessities in today’s world.

Kinaxis has become a necessity as a Software-as-a-Service (SaaS) company for enterprise businesses. These businesses needed to get to consumers in a pandemic world. That new way of consumption isn’t going to change overnight. In fact, with businesses returning to normal there could be even more high growth, according to Kinaxis management.

As for Shopify, the company saw an explosion in e-commerce that was already predicted, but at a slower pace. E-commerce was set to outpace retail sales by 2030. However, e-commerce became a necessity with everyone staying at home. Again, it’s unlikely consumers will suddenly go back to stores if they fear for their safety, or if they’ve simply grown used to shopping at home.

Bottom line

A strong company is a strong company. While there is certainly a predictable market pullback today, I wouldn’t be fearful. Analysts believe that not only will there be a quick rebound, we could see a Roaring ’20s level stock market in the near future. Interest levels are low, and Canadians want to spend, leaving a prime opportunity for a soaring rebound in the very near future. So consider these stocks as a bargain and hop in while you can.

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