Top Growth Stocks to Buy and Avoid After Tech's 10% Correction

Description

Growth stocks took a nasty spill last week. And if you're thinking about snagging some bargains on the dip, you're on the right track. But before you think about going against the grain with the speculative growth stocks that are now in free fall with the assumption that they'll bounce back sometime soon, I'd urge investors to exercise caution, as some plunging growth stocks may not be in a spot to recover.

If you're not careful when going against the grain, you can get nicked.

That's why it's vital only to buy shares of companies that you know to be trading at a discount to your estimate of its intrinsic value, rather than attempting to "play" some sort of relief bounce over the near term. In this piece, we'll have a look at one hard-hit growth stock that I believe to be a compelling buy on the dip and one stock that I think could take years to recover from its latest bout of weakness.

The Nasdaq 100 is fresh off a 10% correction, while the value-heavy **TSX Index** barely budged, thanks in part to recent strength in the price of oil. While there's no telling if this growth-to-value rotation is over with, I would encourage investors to be careful of which falling knives they choose to reach for.

Shares of former high-flyer **Facedrive** (TSXV:FD), a name I've recommended investors avoid like the plague, has crashed 58% since early February. Meanwhile, **Shopify** (TSX:SHOP)(NYSE:SHOP), a stock I've recommend buying on weakness, finds itself down a less-drastic but still painful 23%.

Facedrive: More downside ahead?

Facedrive stock is dropping, and shares may never recover after its latest sell-off. As one of the "sexiest" plays on the entire TSX Venture Exchange, shares commanded a multiple of over 230 times book and thousands of times sales near peak levels. The stock may have given investors a front-row seat to electric-vehicle (EV) ride-sharing, but at what price? Personally, I didn't get why investors were excited with the name and failed to recognize the opportunity at hand.

Fellow Fool contributor Chris MacDonald also did not get the appeal of Facedrive stock while they traded at north of 5,000 times sales (that's no typo!). He warned investors that the stock was skating on thin ice and that shares would “drop like a rock.”

“Facedrive’s business model is simple. The company provides a ride-sharing platform focused on EV options. Similar to other notable apps, Facedrive’s platform allows for driver reviews, cleaner transport, and other features we all take for granted with existing platforms,” wrote MacDonald. “I think it more likely this stock will go back to trading in the penny-stock range whenever this massive bubble bursts.”

Boy, was MacDonald spot on. The stock is dropping with no end in sight. And although shares are 56% off, they remain absurdly expensive in my books.

Shopify: A more compelling growth stock to buy on weakness

Shopify is also absurdly expensive, but it’s absurdly expensive for a reason. The company has proven itself a top contender in the budding small- and medium-sized business (SMB) e-commerce scene. It’s competed with the likes of **Amazon.com** in the SMB arena, only to come out on top, and that’s thanks in part to the firm’s incredible stewardship led by Tobias Lütke, a man I’ve previously referred to as a “visionary founder” worthy of a hefty premium.

Over the years, Shopify stock has crashed viciously, only to come roaring back months later. I think this tech-driven plunge will be no different. While Shopify’s pandemic tailwinds will fade in 2021, I wouldn’t discount the firm’s abilities to build upon last year’s strength.

That said, I wouldn’t look to back up the truck on the growth stock just yet. I think bond yields could continue to swell (perhaps past 2%) into year’s end, which will be to the devastation of hyper-growth names like Shopify.

If you’re keen on snagging a growth stock at 25-30% off, I’d nibble into a third position in SHOP stock here with the intention of buying the other two-thirds on a further pullback. Shopify could find itself back in the triple-digits before it bottoms out. So, don’t get too greedy, as it may be way too early this growth-driven sell-off.

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