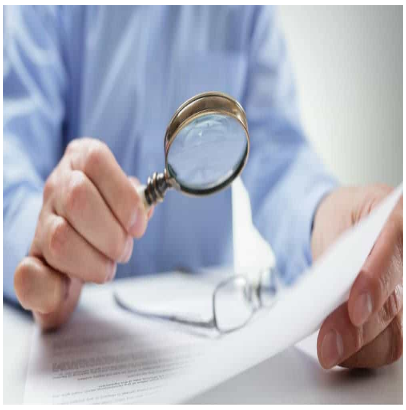

Facedrive (TSXV:FD) Stock Dropped 57% Last Week: Should You Buy This Dip?

Description

In numerous prior pieces, I've urged investors to steer clear of **Facedrive** (TSXV:FD) stock — a name referred to by fellow Fool Jitendra Parashar as "the next **Tesla**" — warning of an imminent momentum reversal. Undoubtedly, the stock had become too hot in recent months. And if you'd chased the stock with hopes of scoring a quick gain, you probably took a very painful hit right on the chin. And I'm not so sure the name can recover quickly after this brutal growth-driven sell-off.

Shares of Facedrive dropped 57% from peak to trough before bouncing back modestly such that shares are now down just over 52%. If you bet on Facedrive stock at the wrong time, you lost half your investment, and all it took was a few weeks. This shows the dangers of chasing high-flying growth stocks on the TSX Venture Exchange (TSXV).

In this piece, we'll go into greater detail on whether the plunge in Facedrive stock is a buying opportunity or if it's the start of a move much lower, perhaps to back to single-digit territory — a level where FD stock started 2020.

Facedrive stock: Buy the dip? Or is this a value trap?

After shares got cut in half, Facedrive now boasts a $1.6 billion market cap. While the "story stock" driven higher by electric vehicle (EV) hype and Tesla comparisons may seem like a steal at current prices, I wouldn't be so quick to jump in at these depths.

While FD stock could stand to soar if the 10-year U.S. Treasury note yield continues pulling back, I would argue that the likelier scenario would see bond yields climb past the 2% mark. Such a move by the bond market would be detrimental to the bid-up growth story stocks like Facedrive, and think FD stock is still at risk of crumbling like a paper bag.

Can Facedrive stock get cut in half again?

Remember, just because a stock gets cut in half doesn't mean it can't get cut in half again. Facedrive is a rapidly falling knife that could hurt those who aren't careful with how they purchase the name. The next meaningful support level is at around $20 and change. That implies another drop in excess of 30% that could be in the cards.

If you're keen on getting in the name, I'd wait for the level to be tested. Personally, I wouldn't advise betting on the highly speculative play, because the business model isn't at all unique. I see no moat and think the business can be easily replicated by its bigger brothers in **Uber** or **Lyft**.

Sure, Facedrive may be some Tesla-flavoured version of Uber or Lyft. But I still don't get why one would want to pay a nosebleed-level valuation of 2,860 times sales to gain such exposure.

Foolish takeaway on FD stock

I don't think anything is stopping the name from dropping to the single digits by year's end, especially if the tech market continues crashing over worrisome bond yields. In any case, I hesitate to recommend buying FD stock after its recent plunge, as I still believe shares are astronomically overvalued.

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Date
2025/08/15
Date Created
2021/03/11
Author
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