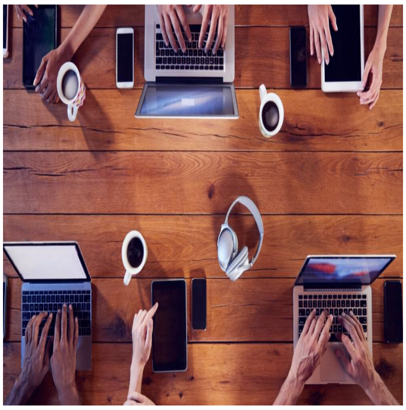

Why Are Tech Stocks Dropping in 2021?

Description

Tech stocks had an incredible run last year. Software, e-commerce, space tech and payment companies all had a stellar run. This year, the trend seems to have reversed. Some of the biggest winners of 2020 have lost more than a third of their value since 2021 began and could have more room to drop.

Here's why tech stocks are getting stomped this year and how you should position your portfolio if you're focused on growth.

Tech stock valuations and rates

The two key drivers of last year's tech bull market were revenue growth and multiple expansion. Take **Shopify** (TSX:SHOP)(NYSE:SHOP), for instance. Shopify's revenue expanded 86% from 2019 to 2020, which was partly due to the pandemic. Meanwhile, Shopify's price-to-sales ratio expanded from roughly 20 to 60 over the same period.

The combination of higher sales and a higher sales multiple pushed the stock up over 300% from 2019 to 2020. A similar trend seems to have played out across the tech sector last year. Several companies saw their top line expand. But investors also expanded their valuations, assuming such growth can be sustained forever.

However, such growth rates are unsustainable. Shopify may see slower growth as the economy reopens, people start visiting malls and the base effect kicks in. In short, Shopify's growth in 2021 could be lower than 86%. This realization should make investors adjust their valuation ratios lower, which means Shopify's price-to-sales ratio should decline.

Shopify stock is down 30% from its all-time high in February. Meanwhile, the P/S ratio is 39. If the ratio drops to pre-crisis levels of 20, the stock could have much more pain ahead.

These factors also apply to most other tech stocks.

How to position your portfolio

If you're looking for growth, it's important to recognize that the tech sector isn't the only one growing. Core sectors of the economy which have been shut for much of the past year could experience a rebound in 2021.

Alimentation Couche-Tard (TSX:ATD.A)(TSX:ATD.B) is a good example. This boring gas station and convenience store operator has delivered a 1,900% return since 2009. Much of that growth is driven by acquisitions and consolidation. Couche-Tard has acquired gas stations and convenience stores across the world to expand its network and unlock value for shareholders.

Last year, the company nearly acquired French grocery chain **Carrefour**. That deal fell apart, but Couche-Tard still has plenty of dry powder to execute a similar mega-deal in the future.

Couche-Tard is also a recovery play, as travel and fuel sales are expected to rebound in 2021. If you're looking for a reasonably-priced growth stock, this one should certainly be on your radar.

Bottom line

Tech stocks saw immense growth and higher valuations last year. This year, those two factors could reverse. That's probably why tech stocks are losing so much value. Growth investors should probably turn their attention to growth in other, more reasonably-priced sectors.

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2. Tech Stocks

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2. TSX:ATD (Alimentation Couche-Tard Inc.)
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