



Tech Stocks Warning: Beware the Bursting Bubbles

Description

The **TSX** has been a madhouse of tech initial public offerings (IPOs) over the last year. It seemed like the best time to do it, though no one could have planned for a pandemic. Yet while the “tech industry” may exist, there are still a number of sectors within that industry. And that means that while some tech stocks saw massive success, not every one of them did.

So, let’s look at what’s going on behind the scenes with tech stocks and where I would still put some of my cash today.

Investor interest waxes then wanes

Canadian investors, and indeed investors in general, became growth hungry in 2020. Tech stocks provided a [strong opportunity](#) to make quick cash, and a lot of it. With many tech stocks seeing shares rise higher and higher, everyone wanted in on the action. But therein lied the problem.

The issue became that many investors thought that practically every single tech stock would see this massive growth. This created a flood of upfront investing during company IPOs. There was so much interest in the beginning, that some IPOs saw as much \$1 billion in orders for a proposed \$100 million deal, for example.

But as you can predict, this initial growth didn’t necessarily mean long-term returns. Even after a few months, some companies would increase their IPO price, seeing the growth in the tech sector. However, those same shares would then drop to about half of their IPO price. And this would occur again and again. In fact, Canadian tech IPOs have seen an average return of just 1.1% since entering the market.

But this isn’t the case for *all* tech stocks.

Seek out strength

As I said at the beginning of this article, Motley Fool investors should look into sectors within tech stocks. There are certain areas that will continue to see strong growth, and that's from sustainable sources. In the case of this article, I'm going to focus in on two tech stocks: **Dye & Durham** ([TSX:DND](#)) and **Nuvei** ([TSX:NVEI](#)).

Dye & Durham looked like it would be an acquisition target, and this may still be the case, but it remains an excellent option among tech stocks. The company provides Software as a Service (SaaS) to legal and [business professionals](#), including government agencies. The company originally listed its shares on the TSX at \$7.50. Since then, shares have exploded by 215% as of writing!

But analysts don't believe you should hold back quite yet. The average target over the next year remains at around \$58 — a current potential upside of 25%. And while it may be an acquisition target, it's making acquisitions of its own. Most recently, the company purchased United Kingdom software company TM Group for \$156 million, focusing on real estate. This follows a \$159 million acquisition of Australian software company GlobalX Information Pty Ltd.

Nuvei also saw incredible strength this year. The company hoped to raise US\$600 million during its IPO last September, but instead it raised a whopping US\$805 million, with the deal 20 times oversubscribed. It became the [largest tech IPO](#) on the TSX. After coming on the market at \$42.50, shares are up 129% as of writing. Yet again, analysts believe the stock could climb another 28% before the year is out.

These payment technology solutions companies provide another sector that should continue seeing sustainable growth. Yet it remains incredibly small compared to its peers, with a market cap of \$15 billion. So, this stock could easily double in the next few years for Motley Fool investors.

Bottom line

Here at the Motley Fool, we like to think long term. In the case of tech stocks, it's already been proven that not every tech stock is alike. Yes, there was a pullback among tech stocks, but not every kind. If you find the right sector, with sustainable revenue, you can buy these tech stocks and look forward to returns for decades to come.

CATEGORY

1. Investing
2. Personal Finance
3. Tech Stocks

TICKERS GLOBAL

1. TSX:DND (Dye & Durham Limited)
2. TSX:NVEI (Nuvei Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin

3. Msn
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Author

alegatewolfe

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