Should Investors Buy Facedrive Stock Right Now?

Description

Among the growth stocks that have taken investors by storm this year is **Facedrive** (TSXV:FD). A humble, small, Canadian tech company, Facedrive stock surged in incredible fashion earlier this year amid meme stock mania. While other Fools were aggressively touting Facedrive as the next **Netflix**, I saw this parabolic move as completely detached from its fundamentals.

On February 22, when I told readers Facedrive stock could be the best short opportunity in Canada. It turns out, it pretty much has been.

Since Feb. 22, Facedrive stock has lost approximately 97% of its value. This has been a dumpster fire for investors who bought amid meme stock hysteria earlier.

However, this past month, shares of Facedrive stock once again surged from a close of $0.88 on Sep. 15 to more than $4 per share on Sep. 20. This has led to another round of speculative interest in Facedrive stock.

Of course, since then, shares have continued their decline, moving in line with their trajectory of late. Here's why Foolish investors should steer clear of the hype with this stock, and leave it for the spec traders to handle.

Valuation does not make sense for Facedrive stock

For growth investors who put a lot of focus on value, Facedrive stock's fundamentals defy logic. Indeed, this stock is one of the most expensive buys on the TSX today. Even after a rather incredible decline, Facedrive stock still trades at more than 10 times sales, a level usually reserved for the highest-quality growth stocks out there.

I’m of the view this valuation still leaves a lot of room to the downside in any sort of volatile market. Accordingly, those who like the potential rewards this stock provides must be aware of the risks. We’ve already seen a calamitous drop this year from its previous euphoric peak. The idea that another such drop isn’t possible from here is a dangerous view to have right now.

Sure, this stock may have some meme-like attributes that make it appealing to aggressive growth investors. However, anyone with a decent investing time horizon and who values capital preservation in their portfolios needs to think seriously about how risky this stock is, even at this lower level.

There’s nothing special about Facedrive’s business model

When it comes to investing in innovative tech companies, it is crucial for investors to look for a unique business model and long-term growth potential. That said, Facedrive’s business model is one I just don’t think is innovative enough.

I’ve pointed out my rationale for this in the past. However, I think it’s important for investors to consider. What’s the durable competitive advantage with company x? If company x is no different than the competition, and it’s up against absolute behemoths in a sandbox that’s difficult to play in, what’s the upside?

Sure, Facedrive could be swallowed up by a competitor at some point. This is a company producing content in an era where content creation is valued much more highly than it has been in the past. However, at these levels, I still think any sort of takeover bid with a premium is very unlikely. Accordingly, I don’t like the risk/reward scenario with this stock.

Bottom line

Knowing which companies to invest in is important. However, finding examples of companies not to invest in — that’s equally important.

Facedrive stock continues to make my list of non-investment-grade companies that are far too speculative and dangerous to invest in right now. Personally, I think this company is a house of cards. But that’s just me.

Investors should do their own homework before jumping into any stock. I think any rational person looking at what the data says with Facedrive stock is likely to come to a similar conclusion right now.

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chrismacdonald