3 Red-Hot Stocks to Warm Your Portfolio in Winter

Description

A lot of value investors tend to stay away from overpriced, red-hot stocks, and it's not because they don't have the adequate risk tolerance for that. It's just that for a value investor, value *is* the metric and the primary assessor of good securities to invest in. But this approach, while time-tested, might prevent you from capitalizing on the rapid growth potential of certain red-hot stocks.

If you can double your capital in such stocks within three years, and a stable/consistent growth stock would take eight years to achieve that, you can consider the "overvaluation" a justified cost for the time it saved you in achieving the same capital appreciation.

The tech sector is full of such stocks.

An IT service management company

Converge Technology Solutions (TSX:CTS) is a relatively new tech company. It was founded in 2016 and started trading on the TSX in 2018. It was only a mildly decent growth stock in the beginning, but the post-pandemic recovery "aura" has transformed it into a powerful growth asset. If you had bought into the company on the first trading day of 2020, you would have grown your capital by almost seven times.

This is not uncommon for many tech stocks, but one way CTS is different from many others in the sector is the fact that it has managed to remain on top for such a long time without a correction. The stock did dip quite sharply in late September, but it recovered in a month or so. But this kind of growth doesn't come cheap. The stock is currently trading at a price-to-earnings ratio of 270 and a price-to-book ratio of 7.3 times.

If the stock can replicate even half the growth pace of the last 12 months, the price might be worth it.

A payment-processing company

Saying that **Nuvei** (TSX:NVEI)(NASDAQ:NVEI) has hit the ground (the TSX) running would be an understatement. The company joined the TSX with a bang and had the largest tech IPO in Canada (so far), in which it raised over $800 million. And it has been consistently moving upward since then. The market value hit its peak in mid-September, with the stock growing about 272% since inception.

It has come down from that peak valuation but not too much. The price-to-earnings ratio is off the charts (literally), and the price-to-book ratio is at 11 times, making it significantly more expensive than CTS. But the company might also have more growth potential, thanks to its position in the rapidly evolving Fintech industry.

An e-commerce company

Lightspeed (TSX:LSPD)(NYSE:LSPD) has been a growth monster since the very beginning, and it's the primary reason why many experts and retail investors draw parallels between Lightspeed and **Shopify** — one of the most powerful growth stocks in TSX history. The stock has grown about 549% since its inception in the first quarter of 2019, but it still has a long way to go if it is to compete with Shopify for the e-commerce leadership position.

Again, the price for such growth is higher than what many are comfortable with paying. But it's important to remember that the e-commerce boom is far from over. We still have a good few years before the market settles down or becomes stagnant. Lightspeed has already dropped down 22% from its recent peak and is already on its way up. It might be a good idea to buy it now when it's warm, lest it becomes too hot to touch.

Foolish takeaway

The three red-hot tech stocks might not even become fairly valued (let alone undervalued) anytime soon. And if you believe that the growth is likely to continue, waiting for the valuation to drop to a desirable level might come with its own time consequences.

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