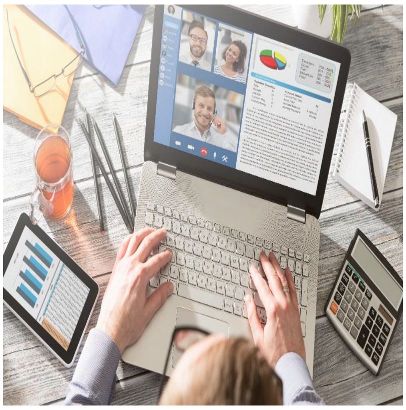

How to Make Money From the 2022 Tech Stock Sell-Off?

Description

Technology stocks across the globe witnessed the biggest crash at the start of 2022 after an accelerated surge in 2020 and 2021. Hedge funds dumped their high-valuation tech stocks between December 30, 2021, and January 4, 2022. This was the biggest sell-off in dollar terms in over a decade, according to **Goldman Sachs**' data reported by CNBC. The **Nasdaq Composite Index** dipped 8.9%, and the **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT) 15.3% since December 30, 2021.

When hedge funds come into the picture, investors who have burned their hands in meme stocks look at the short interest in the share. But hedge funds are selling their long positions in tech stocks, and there is no profit booking in short-selling as was seen in the last two months of 2021. Why are hedge funds selling? Are they vacating a sinking ship, or have they found an opportunity elsewhere?

What is causing the 2022 tech stock sell-off?

Goldman believes the Fed interest rates are behind the tech stock sell-off. The U.S. Federal Reserve hinted that it might hike interest rates and reduce bond purchases in 2022. When interest rates rise, borrowing becomes expensive, thereby impacting businesses and consumers.

Add to this, the rising inflation and consumers have less money to spend. A slowdown in consumer spending could reduce revenue for e-commerce and other consumer goods companies. An increase in borrowing costs could impact the profit of companies with high leverage. The stock market tends to react immediately to interest rate changes as it prices in future growth.

The near-zero interest rate and fiscal stimulus money brought liquidity into the economy that inflated stock prices in the last two years. Investors preferred investing in the stock market instead of the bond market. Tech stocks attracted investors because of their high revenue growth rate and promising outlook. Investors priced in 10 years growth for **Shopify** (TSX:SHOP)(NYSE:SHOP). Hence, hedge funds acted fast and booked profits on the news of increasing interest rates.

This inverse relationship between interest rates and the stock market caused the tech sell-off. Many value investors feared a 2001-like dot.com bubble as tech stocks surged to the 2001 level. During the late 90s, investors dumped money in anything technology. Suddenly they pulled out from the market in 2001 when the business was not sustainable. But the 2022 sell-off is an after-effect of tightening monetary policy, which means hedge funds are not vacating a sinking ship.

How to make money from the 2022 tech stock sell-off

Now, every major stock market momentum presents a risk and an opportunity. It depends on how you play the momentum. You can reduce the risk and increase returns through portfolio diversification and smart asset allocation. In investing, one's loss is another's profit as money changes hands. You have to see where the money is going and follow suit.

Financial stocks tend to benefit from rising interest rates, as they can charge higher interest for loans. Commodity and energy stocks tend to benefit from rising inflation, as they can get higher prices for their output.

Royal Bank of Canada and **Suncor Energy** could flourish in a high-inflation, high-interest rate economy. They will also benefit from economic growth. The two stocks have surged 13% and 19%, respectively, since December 20, 2021. Now, these stocks won't exactly make you rich but they could balance your portfolio returns when high-growth tech stocks fall.

Should you buy the dip?

The question is should you buy the 2022 tech dip? Tech stocks are falling because of interest rate changes. Their fundamentals are still strong. The e-commerce wave, digitization, cloud services, and 5G are long-term trends changing how you live and work. They might see a slowdown in the short term, but their long-term growth potential is intact.

If you are unsure which tech stock to buy, the XIT ETF is a good way to get complete exposure to the tech sector's overall growth. Another good stock is Shopify, as it is leading the e-commerce wave. You can also look at my previous article where I mentioned a few tech stocks worth buying in the dip.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)
3. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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