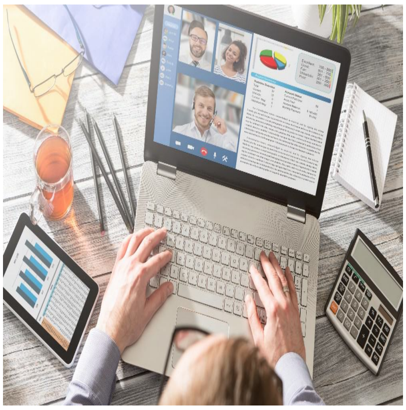

3 Reasons This Is the Best Time to Buy Tech Stocks

Description

Tech stocks have had a difficult year. In fact, **Shopify** (TSX:SHOP)(NYSE:SHOP), the largest tech company in Canada, has shed 77% of its value since November last year. Most other growth and tech stocks have seen similar declines. This market is gut-wrenching for long-term investors. But it's ideal for beginners who've never entered the market.

Here are three reasons why this is the perfect opportunity to add tech stocks to your portfolio for the first time.

Sentiment

Warren Buffett once said that the secret to creating wealth with stocks was to be "greedy when others are fearful." Well, it seems like the tech sector has approached "peak fear." Investors have been offloading tech stocks, as they worry about inflation and rising interest rates.

Some of these fears are justified. Overvalued tech stocks that are *losing money* could be at risk in this environment. However, the market correction has also punished high-quality tech stocks with wide profit margins and essential services. That's an opportunity for contrarian investors.

Valuations

Negative sentiments lead to better valuations. Investors are so pessimistic that some tech companies are now trading for the same price-to-earnings ratio as industrial and energy giants. As you can imagine, this is unusual. In my view, blue-chip tech companies are trading at a severe discount to intrinsic value.

Growth

Slower growth is another concern for investors. This is perfectly justified. Shopify saw a bump in growth rates due to government stimulus spending and the lockdowns of physical stores. The company's revenue-growth rate surged to 57% last year. This year, growth could slow down considerably. However, analysts believe Shopify's long-term growth rate should stabilize at 25% through 2025. That's not as bad, as the stock makes it look.

That's another reason why this is the perfect time to seek exposure to this sector.

Best tech stock to buy

Tech stocks are cheap, but that doesn't mean they couldn't get cheaper. Corrections are volatile and unpredictable. Beginners need to focus on the most stable and reliable blue-chip companies that are currently trading at better valuations.

Constellation Software (TSX:CSU) could be a top pick. The enterprise software giant is focused on acquiring niche software companies to drive growth. Since its inception, the team has acquired over 300 small- and mid-sized software firms across the world. This year, the team is doubling down on this strategy and deploying more cash than ever before.

According to Constellation's latest report, the company generated US$324 million in free cash flow in the first quarter. That's roughly $1.7 billion in annual free cash flow or 4.1% of Constellation's market cap. In other words, this software company generates better returns than most traditional companies.

CSU stock is down 18.5% this year. That's an opportunity for first-time investors.

Bottom line

Tech stocks are plunging because investors are afraid. Valuations are finally getting realistic. This could be the perfect environment for beginners to start investing in long-term growth.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. vraisinghani

Category

1. Investing
2. Tech Stocks

Date
2025/08/29
Date Created
2022/05/17
Author
vraisinghani