



This 1 Tech Stock Has Surged 50% in the Last 2 Months: Should You Buy?

Description

If I said a tech stock fell 50% in May and June, when the market went [bearish](#) after the interest rate hike, you would believe me. But one tech stock surged 50% in this bearish market. **Sierra Wireless** ([TSX:SW](#))([NASDAQ:SWIR](#)) is in the hardware business, delivering connectivity, modules, and router solutions for the internet of things (IoT). I won't recommend buying this stock for two reasons:

- Trading volume
- Fundamentals

Sierra Wireless: A tech stock with low trading volume

The Fool's way of [stock investing](#) is putting money where there is liquidity. Even if the stock has a low market capitalization, it should have a high trading volume. If you want to sell the stock and book profit, you should have buyers for it, even in a weak market.

Sierra Wireless has a lower average trading volume of 74,000. A Canadian tech stock like **Open Text** has an average trading volume of 623,000. Because of Sierra's low trading volume, you see a sudden jump in the stock trading volume at irregular intervals.

On May 12 and 13, Sierra stock saw a sudden jump in trading volume to 400,000. I looked at the stock's trading momentum since 2019. Every time such trading jumps happened, they followed a decline in stock price. For instance, the last trading jump was on November 10 and 11, 2021, followed by a 21% dip until January 2022. The current trading jump is not different, because there is no trading volume after May 12 and 13.

Fundamentals of Sierra Wireless

Most of these trading boosts happen around quarterly earnings. Even the May jump happened after the company reported 60% revenue growth in the [first quarter](#), driven by the 5G rollout. The communications hardware industry is cyclical, as the demand jumps with technology upgrades. While

the 5G rollout has bolstered demand for IoT chips, Sierra is a small player. It is benefitting from tight supply in the chip industry. Once supply smoothens, the company might have difficulty competing with market leaders like **Broadcom**.

Sierra's revenue growth may not be sustainable. That is visible from its second-quarter revenue guidance of US\$167.5 million, down 3% from the first-quarter revenue of US\$173 million. Such revenue growth rates make its 1.65 times price-to-sales ratio look expensive.

What should you do with Sierra Wireless stock?

If you hold Sierra stock, this is a good time to sell it at market price. Do not put a higher price, as you may or may not be able to book profit. If the low trading volumes are keeping you from selling the stock, wait until the first half of August, when it releases second-quarter earnings. At that time, you could get a decent price for the stock.

And if you do not own Sierra stock, stay away. Don't buy this low-liquidity stock at its 52-week high. Buy **Descartes Systems** or Open Text stocks, as they could give you double-digit growth and high liquidity.

Things to look for when buying a tech stock

When looking to buy tech stocks, don't just look at the price, as these stocks tend to be very volatile and can move 10-20% in a day. Look for the following three things:

- Is the company a market leader?
- If the company is a small cap, has it sustained double-digit growth for more than two years?
- Does the company have a technology advantage over competitors?
- Is there a demand for its products?

Finding answers to the above four questions would help you determine the next growth stock.

Lightspeed Commerce ([TSX:LSPD](#))([NYSE:LSPD](#)) is a good example. Although its revenue is slowing amid the looming recession, the market has pushed the stock to an attractive valuation. The company enjoys demand and a 35% organic revenue growth rate. It is acquiring competitors to enhance its technology further. Hence, I am bullish on Lightspeed, even when its stock lost 80% of its valuation.

CATEGORY

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2. Tech Stocks

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2. NYSE:LSPD (Lightspeed Commerce)
3. TSX:LSPD (Lightspeed Commerce)
4. TSX:SW (Sierra Wireless)

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