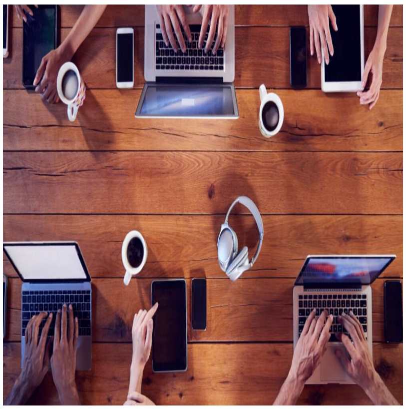

Market Correction: 1 Oversold Tech ETF I'd Buy in Bulk

Description

The global stock market saw a correction in 2022, as the Russia-Ukraine war challenged the plans of central banks to pull back stimulus money through interest rate hikes. The virus stocks that bloomed during the pandemic lockdowns dropped in valuation in the tech stock selloff that began in November 2021. Nasdaq Composite Index lost almost 30% value in 2022.

The Toronto Stock Exchange doesn't have many tech stocks and is skewed towards finance and energy stocks. Hence, it outperformed Nasdaq and S&P 500 Index. But this performance won't last long, as the global economy enters recession and the global oil supply eases. Hence, it is time to rebalance your portfolio.

Rebalance your portfolio in the market correction

The market correction changed the weightage of tech and energy stocks in the TSX and your portfolio. For instance, John invested $5,000 each in energy, tech, and bank ETFs at the start of 2021. After 18 months, the performance of three ETFs changed the portfolio weightage, and now his investments look as follows:

- Energy ETF has $11,600: 77% weightage
- Bank ETF has $5,872: 39% weightage
- Tech ETF has $3,634: 24% weightage

Had John rebalanced his portfolio towards the end of 2021, he would have made a 17% profit from the tech ETF. But the energy ETF has more than offset the loss from tech ETF. It is time to book profit from energy and invest in tech as the latter is now oversold. This rebalancing will help you benefit from the golden rule of buying the dip and selling the rally.

Energy stocks are near their cyclical highs and will correct as oil prices fall. But tech stocks enjoy secular growth trends of digitization, 5G, and e-commerce. The selloff has pushed many fundamentally strong stocks into the oversold category. They are back to their pre-pandemic level, removing theeffect of the tech bubble burst.

One oversold tech ETF to buy in bulk

Canada doesn't have many tech stocks. **iShares S&P/TSX Capped Information Technology Index ETF** (TSX:XIT) is pretty much the only pure-play Canadian tech ETF trading on the TSX. Other tech ETFs are either exposed to Nasdaq or global tech stocks. The XIT ETF crashed 46% from its all-time high of $57.73 in September 2021. The ETF peaked in the tech bubble, fueled by stimulus money, tech IPO, and the crypto boom. When the tech bubble burst, the ETF returned to its pre-pandemic level of $32.

This is the right time to buy the XIT ETF, as it is seeing an increase in buying. The Relative Strength Index (RSI), which measures the direction of trades, reached 50 (a neutral zone) for the first time since April 2022, hinting that buying is returning. The ETF has strong growth potential for the 2030 decade.

Four reasons to buy the tech ETF

The XIT ETF's top holdings are **Constellation Software** and **Shopify**, which have strong fundamentals and long-term growth. The selloff has corrected their stock price and brought it in sync with the fundamentals.

The ETF's third- and fourth-largest holdings are in **Open Text** and **CGI**, which help companies with the digital transition. The two could see a jump in orders, as companies tend to invest in technology during a recession to reduce costs.

The ETF has high exposure to supply chain management software stocks that could recover as the global supply chain rebuilds.

It is the only Canadian ETF that can give you high exposure to Canadian market leaders in e-commerce, software, and crypto.

Investor takeaway

Market correction presents investors with the opportunity to rebalance their portfolios. The fear of a global recession has made it extremely risky to invest in small-cap stocks. A recession wipes inefficient companies and gives efficient companies scope to expand their market share. Large-cap stocks have a higher potential to withstand a recession, and the XIT ETF gives you exposure to market leaders in a cost-efficient manner.

When the market is uncertain in the short term, ETFs are one of the safest ways to buy the dip, as it eliminates company-specific risk.

CATEGORY

1. Investing
2. Tech Stocks

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1. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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