When's the Time to Buy High-Growth Stocks?

Description

Growth stocks have been heavily out of favour for nearly a year now, with fear of higher interest rates and a recession that could weigh heavily on those sky-high valuations. Indeed, the so-called valuation reset has worked its way through the most speculative of growth plays. The shockwaves have been felt across the entire market, with even steady, profitable growth companies treading water.

As we march further into the second half, there's no guarantee that volatility will subside. Arguably, frothy valuations have been reset. But the focus of the second half may be destruction to earnings. Indeed, the coming second-quarter earnings season has many investors biting their nails. The latter two quarters could have the potential to be worse. And at this juncture, it's unclear as to how much of the coming weakness is baked in.

It may be wise to play defence, as the Bank of Canada continues delivering front-loaded rate hikes (that 100-bps hike this week signaled they mean business) in an effort to curb inflation's pace. That said, the valuations of many defensive dividend stocks and bond proxies have gone up a tad in recent months. If everybody is ditching risk assets for Steady Eddie plays, the value to be had may be suspect.

So, should investors pay up for safety or jump into the deep end with battered growth stocks, many of which may be falling knives? I'd argue that playing both sides of the card is only prudent. Eventually, growth stocks will be so oversold that they may be a better value than the bid-up "value" stocks.

Giving growth stocks a second chance in the second half

That's why a barbell approach could be vital to unlocking solid results for the rest of 2022. Given many investors have been playing defence, this piece will have a closer look at two growthy plays that I think are oversold and overdue for a bounce. What could cause such a bounce? Perhaps the rolling over of inflation and a less hawkish pivot from the Bank of Canada or U.S. Federal Reserve.

Docebo (TSX:DCBO)(NASDAQ:DCBO) is one intriguing high-growth bet right here for those looking to play a “return to growth” over the next 18 months.

Shares of the AI-powered Learning Management System (LMS) software developer are down around 70% from their highs. Indeed, software that helps make remote work easier will still be in high demand over the next few years, and not because there’s another COVID wave (the BA.5 variant could cause issues this fall) around the corner. I think hybrid and remote work is here to stay. And any software that helps make the process of training employees will continue to be sought after, even as we head into a recession.

Powering through a recession

IT spending tends to be a tad more resilient than the consumer when the going gets tough. With a “mild” recession likely for 2023, I’d argue there’s too much damage done to Docebo stock. Further, Docebo is making the right deals. With a focus on long-term growth over appeasing near-term traders, I’d argue Docebo stock is a steal of a deal.

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Author

joefrenette