2 WFH Stocks That Could Shake Things Up in 2023

Description

The 2020-21 euphoric rise of speculative innovation stocks ended in tears last year. Some of the best-performing stars of the past two-and-a-half years (think many of the work-from-home, or WFH, plays) shed more than 70% of their value, thanks in part to rising interest rates. Undoubtedly, valuations got a tad out of hand, as speculators looked to gamble excess capital on a few select names without so too much thought for the value they'll get in return.

Growth investing can lead to unfathomable returns. But those who neglect the valuation process can get hurt once momentum reverses course. Chasing hot stocks is a dangerous game, and many new investors found this out the hard way. Further, betting on trends (like WFH) is no excuse to buy a stock you haven't done the appropriate research on. Due diligence always matters. Further, betting on trends seldom results in superior risk-adjusted returns over the long run.

Just look at how badly thematic exchange-traded funds blew up last year!

Undoubtedly, a dovish tilt from the U.S. Federal Reserve could help such battered tech names recover some of the ground they lost over the past year. However, it's very unlikely that many names that lost 80-90% of their value will ever eclipse new highs again. The 2022 tech-focused selloff is still fresh in the minds of many. Many bubbles have burst, and valuations continue to contract across the board. Where the new line in the sand will be drawn remains a mystery.

Rates may experience cuts at some point in the next two years. However, investors shouldn't expect a return to the near-zero rate environment we've all grown accustomed to. Inflation's return has left a very bad taste in the mouths of central banks. And the sheer thought of an inflation resurgence could be enough to be very cautious regarding any rate cuts moving forward.

WFH stocks: Finally worth a second look?

Through most of 2022, investors have rotated out of at-risk plays for defensive names and risk-free assets. The battered innovators that shined in 2020-21 are digging a deeper hole for themselves bythe week, it seems. Still, they're not all zeroes. In fact, some may be severely undervalued after morethan a year of non-stop selling!

The WFH stocks in particular still provide value to many workforces who've made the permanent shift to remote or hybrid work. These beaten-down WFH stocks are still worth consideration, but investors should be mindful of the risks that remain with such falling knives.

If you're young and are willing to embrace volatility, **Docebo** (TSX:DCBO) and **Zoom Video Communications** (NASDAQ:ZM) are intriguing.

Docebo

Docebo is a mid-cap ($1.5 billion) Canadian tech stock that's in the niche LMS (Learning Management System) software space. The stock crashed around 70% from peak to trough but has since begun to inch higher on the back of a decent third quarter. For the third quarter (Q3) of 2022, revenue rose 37% year over year, while free cash flow came in at a positive $0.6 million versus negative $1 million clocked in over the same time last year.

While the firm may be improving its profitability prospects, it's still a rather expensive stock at 8.1 times sales. As the company continues improving its AI-driven platform, I expect Docebo will continue to improve its stance in a niche market, where the firm can extend its lead.

Zoom

Zoom has now lost more than 88% of its value from peak levels. Despite the implosion, many continue to use the popular video-conferencing software and its new tools. Sure, the company will never "zoom" higher, as it did in 2020. However, I think there's still value in the name while it's hovering at 29.5 times trailing price to earnings.

At $66.66 per share, I view ZM stock as a compelling rebound candidate for 2023. The firm faces stiffer competition these days, but at 4.6 times sales, the name is arguably cheaper than most "value" stocks this January. If you like the product and believe in Chief Executive Officer Eric Yuan, ZM stock looks intriguing.

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