



1 Canadian Tech Stock I'd Buy Before Shopify

Description

After more than a year of selling chaos in the tech scene, now is not the time to jump into the deep end, unless you're willing to make a bet that at some point (hopefully sooner rather than later) the U.S. Federal Reserve will begin to cut rates. Indeed, the near-zero interest rate environment made for a prosperous environment for the hyper-growth firms that had no plans of making any money in the near future.

Even hyper-growth firms that became household names (think shares of **Shopify** ([TSX:SHOP](#))) weighed down investor portfolios amid the 2022 market selloff. Indeed, this bear market isn't yet over. And though it may not require a Fed pivot to end (higher earnings could support stock prices in 2023), I think chasing hyper-growth stocks on the way down may be too dangerous a strategy for most.

Indeed, hyper-growth stocks will rebound, and they'll likely outperform value plays. Until then, though, expect hyper-growth to continue leading the way downward, especially with more rate hikes on the horizon.

Instead of jumping into the deep end of the pool, with stocks that have gotten cut in half many times over, it may be wiser to stick with the names that actually can make a profit. As the recession lands, value and real earnings will be what can prevent considerable downside risk and a potential continuation of the negative momentum experienced in 2022.

At the end of the day, I'd much rather be in a tech stock that can support its share price through fundamentals. Now, earnings hits are tough to avoid when the economy sours. However, investors should think about the long game.

During the 2000 dot-com bubble burst, few tech stars that skyrocketed in the late 90s eclipsed new highs again. This goes to show the dangers of bottom fishing in the space when there's not even a guarantee that the environment will return to where it was before the pandemic changed everything.

Currently, I'm a fan of steadier tech stocks like **Constellation Software** ([TSX:CSU](#)) over a hyper-growth play like Shopify.

Constellation Software

Constellation experienced two prominent bumps in the road last year. Going into 2023, the stock seems to be ready to move on, even with recession headwinds continuing to weigh heavily on broader stock markets.

For those unfamiliar with the firm, it's made considerable value for investors through acquiring small players in Canada's software scene. In the past, I've described Constellation Software as a private equity-flavoured play. I'd take that a step further by calling it a firm that does private equity-like investing the right way.

Indeed, private equity, small caps, and startups come with greater risks. High rewards tend to come with higher risks. Constellation does a great job of managing said risks by putting in ample due diligence before a potential deal can be made. At the end of the day, Constellation's management team is the real reason to hold the stock at the core of your [Tax-Free Savings Account](#) or [Registered Retirement Savings Plan](#) over the long run.

Tough times will create choppiness in the stock. However, once things return to normal (they always do), expect CSU stock to be back to delivering market-beating gains with less volatility than the broader TSX Index.

At the end of the day, solid gains relative to risk all the most you can ask for. At more than 73 times trailing price to earnings, the stock may be a tad too pricy for most. Personally, I'd watch the stock and wait for another pullback before jumping in. In short, Constellation's a wonderful, unique business at a fairly reasonable price.

CATEGORY

1. Investing
2. Tech Stocks

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2. TSX:SHOP (Shopify Inc.)

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Author

joefrenette

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