4 Tips for Picking Winning Tech Stocks

Description

Every investor has a method for choosing the stocks to add to their portfolio. Tech stocks are a big buzzword this past decade (for good reason). Whatever your experience level, there are ways to pick winning tech stocks.

Here are four tips to help you pick tech stocks that will outperform the market using the methods of investing experts.

1. The best day of the week and time of day to buy tech stocks

Known as The Monday Effect, many people believe the first workday of the week is the best time for buying stocks. Historically, on average, the stock market tends to drop slightly on Mondays, which allows you to scoop up stocks at lower-than-usual prices. This could be due to new information and news released over the weekend or fallout from final stock prices the Friday before the weekend. Take advantage of other traders' lower moods or slower thinking patterns by buying stock on a Monday.

If you choose Monday as your day for purchasing stocks, the time of day also counts. The period between 9:30 and 11:30 EST is the most active in the stock market. Depending on your level of experience with the stock market, you may benefit from jumping straight in and recognizing patterns among tech stocks within the 9:30 to 10:30 period. If you have a bit less experience you can still cash in on the morning rush by trading between 10:30 and 11:30 when the market is less volatile but still moving fast. This is the time some of the best deals of the day can be had.

The weekend is a good time for investors to research prospective stocks by diving into company filings and news. This allows you to create an investing plan for Monday. It helps you to avoid making spur of the moment decisions, which can backfire if you haven't done your homework about an investment.

2. Don't use traditional valuation methods

While fine for other sectors, traditional valuation methods may fall short when it comes to tech stocks.

Traditional valuation methods include studying factors such as earnings per share, price to earnings ratios, growth rates, asset pricing formulas, and the ROA or return on asset calculation. Valuing an investment using these metrics doesn't always accurately capture the potential of fast-growing tech stocks.

Look at Moore's law, which says the processing power of computing chips doubles every year. Tech companies must continually invest back into research and development of their products to stay ahead of the competition. To be relevant, tech companies need to keep on spending. Therefore it is also possible to invest money without expecting a return right away into fledgling companies that may not yet be profitable. In this scenario, it is about the product â€" a great product will yield a great return. **Roku** (NASDAQ: ROKU) is one example â€" in 2018 its stock fell by 38%, while this year to date, Roku has increased its earnings by a whopping 390% year-to-date, and its stock is a total of 500% since its IPO in September of 2017. Remember that this advice does not follow with other industries outside of the tech sector.

3. Consider the return on your investment

While stocks vary, consider a formula such as this one from investor Steve Whitefoot:

Company A has a market cap Of 740 billion and earnings of 55 billion. Now calculate the return on your investment in percent. Take $55.00/$740.00 and multiply by 100, to get an annual return of 7.4%. That's earnings divided by market cap, and multiplied by 100 to get a percentage. If you are pleased with the return and feel that you can not do better with traditional methods such as the low-cost index fund S&P 500, then you may want to take the plunge and invest in the company. Company A is **Apple.** In this case, your bonds and other guaranteed investments may yield 1.5% or just over, while **Apple** (NASDAQ: AAPL) gives you 7.4% for the same period.

Investors often use the S&P 500 as a traditional method of valuation as a benchmark for investors to compare returns on investment.

4. Research these three things: revenue, place in the industry, and future of the industry

What is the stock's primary source of revenue? If your stock is making most of its money with current technology that is being phased out, you may want to look elsewhere for a tech stock that has some staying power. If the tech stock is only earning money from building prototypes and pre-selling models, that may also be a risky investment. A tech stock company with multiple streams of income is ideal.

Which industry does your potential tech stock fall into? There are many categories within technology such as IT, biotech, social media, hardware, software, automotive, and semiconductors. Which of these industries is growing or steady, and which may be dropping in five years? It could be that software will take a back seat to hardware, in which case you might want a tech stock in the hardware category.

The future of the company and its stock depends on the industry's growth. For example, a company making rotary dial telephones would probably be a bad investment, while one making healthcare apps for smartphones could be a good investment today.

When looking for tech stocks, consider these four viewpoints to value potential tech stocks for your portfolio. Even though tech stocks work differently from other industries where research and development is not a big part of spending, you can see that some of the basic rules of picking stocks apply. Have fun with the formula and see which stocks may fit with your short-term and long-term investing goals.

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TICKERS GLOBAL

1. NASDAQ:AAPL (Apple Inc.)
2. NASDAQ:ROKU (Roku)

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Author
yvonne-dick