
Violent Reversal for COVID Winners and Growth Stocks

The ASX All Technology Index, along with tech heavyweights Xero (XRO) and Afterpay (APT), have fallen significantly over the last few months.

In this weekly video Chief Investment Officer Steve Johnson talks to Forager Australian Shares Fund (FOR) senior analyst Alex Shevelev about the factors that have led to the decline.

<https://youtu.be/yscQt4eeJQE>

Transcript:

Steve

Hi and welcome, I'm Steve Johnson, Chief Investment Officer here at Forager Funds and I'm joined in today's video by Alex Shevelev. A very kind but concerned investor of ours sent us an email after last week's Forager Australian Shares Fund webinar, concerned about my welfare and how tired I was looking.

I am fine I promise you, I'm just getting old. But one sector on the ASX that is looking tired is the tech sector. Perhaps surprisingly, we've got the newly created tech index here in Australia down some 20% from its peak. Good quality tech companies are down with Xero 23% off its peak and even the poster child for the growth sector, Afterpay, is now down 45% from its peak just a couple of months ago. Alex, what's happening out there?

Alex

A lot of concerns around the movement in interest rates across the world being higher, but also a lot of enthusiasm coming out of this space. And it's not just the high growth tech names. There's a lot of businesses in there that were COVID beneficiaries, the likes of Redbubble halved, Kogan down 60%.

Those businesses really had a lot of enthusiasm implied in those share prices that have now drawn down substantially.

Steve

We're seeing this across both of our portfolios, the International Fund too, it's been largely indiscriminate in that space. If you report some great numbers, you get whacked and if you report disappointing numbers, you get double whacked, and that has been the moral of the story.

But there are some interesting businesses out there starting to trade at much more attractive prices. I think some of these companies had a really long way to fall. It's really worth thinking about their need for cash, or if they're a cash burning company then the low share price itself being can become reinforcing. But we're looking at the area with a lot more interest than we've

had before.

Alex

That's right and we do own some stocks that are tech oriented and some more stocks that are growing. We own RPM Global, which you would have read about in monthly reports. It's one of the largest positions and it's one that really has been hitting new highs recently.

I think the rationale for that starts in the stock being largely ignored by a lot of investors not caught up in a lot of the mania that followed COVID. Also some reasonable expectations there that are now starting to show. Life360 is another stock that's not far off its highs despite being a US centric, growth business. It has much the same setup, lower expectations, and really just starting to make itself more known to the investment community.

Steve

I think most of those investments are probably in the COVID reopening trade. They suffered before because of COVID over the past 12 months. So people are seeing them more as winners coming out of this. In our portfolio it's been the consumer discretionary side of things that did very well through COVID that's been harder hit than the tech companies that we own. It's been a violent selloff out there in this space and we've got a good list of probably eight to ten businesses that we'd love to own at the right price that are a lot closer to it today. So if this goes on for a few more months, you can expect to see a few more new names in the Australian Fund portfolio.