Five Beaten Up Tech and Discretionary Growth Stocks

This week?s scan seeks to take advantage of stocks that have been beaten up over the last three and six months but offer the potential for high future growth. We limited the search to the Technology and Consumer Discretionary sectors as they generally seem to be taking the brunt of recent selling.

The scan has some similarities to the popular ARK Innovation ETF (ARKK), which holds stocks with high growth potential. ARKK is down 44% over the last six months versus 10% for the NASDAQ. Of our five scan results, only one, Block Inc. (SQ), is currently held by ARKK. Unlike ARKK, our scan seeks more established companies with a history of bottom-line growth.

Screening Criteria

Sector = Technology or Consumer Discretionary

EPS Growth Next 5 Years > 35%

EPS Growth Past 5 Years > 15%

Performance Last Quarter and Half Year < -20%

Ticker	Performance Quarter	Performance Half	EPS Past 5yrs	Forward 5yr EPS	PEG	P/S	Forward P/E	Distance from 52-Week High	Distance from 52-Week Low
ETSY	-47%	-26%	46%	39%	1.2	7.6	33	-48.00%	43.00%
FIVE	-21%	-24%	16%	39%	0.9	3.3	27	-31.00%	11.00%
LEDS	-45%	-60%	38%	50%	na	2.7	na	-88.00%	19.00%
OSTK	-38%	-22%	65%	37%	0.5	0.9	18	-49.00%	57.00%
SQ	-40%	-52%	21%	40%	10.6	3.3	420	-56.00%	52.00%

Real Investment Advice

As shown above, the five companies are down at least twice as much as the NASDAQ over the last six months. As a result, their respective valuations have fallen sharply. In some cases, valuations are at levels typically associated with value stocks. For others, they remain high.

The stocks are highly volatile, and future returns heavily depend on achieving high expected growth rates. This is a risky scan, but in exchange for high levels of risk, these companies' shares offer significant growth potential.

Company Summaries (all descriptions courtesy Zacks)

Etsy (ETSY)

Brooklyn, NY-based Etsy is primarily an e-commerce service provider, which operates a two-sided marketplace platform called Etsy.com. The company completed Initial Public Offering (IPO) in 2015.

ETSY has suffered the most over the last three months after peaking in late November (-47%). Even so, it trades at a high P/S ratio compared to the four other stocks (7.6). In combination with expectations for 5yr EPS growth of 39% and a forward P/E of 33, investors are betting on sustained high performance. ETSY reported a fantastic fourth-quarter last week which led to a gap up in its stock price. Nonetheless, inflation is threatening consumer sentiment and poses a risk to growth prospects.



Five Below (FIVE)

Based in Pennsylvania, in January 2002, Five Below, Inc. is a specialty value chain retailer that provides a wide range of premium quality and trendy merchandise for $5 or below. The company mainly targets teenagers or pre-teen shoppers for its products which include certain brands and licensed merchandise. Notably, these products belong to categories such as Style, Room, Sports, Tech, Create, Party, Candy, and Now.

FIVE?s volatility picked up notably in the last 6 months as the stock fell 24%. It made a 52-week low in February and has advanced 11% from there. In contrast to ETSY, FIVE could be a beneficiary of discretionary income getting squeezed by inflationary pressures. Analysts forecast 5yr EPS growth of 39% and the stock currently trades at a forward P/E of 27.



SemiLEDs Corp. (LEDS)

SemiLEDs Corporation is engaged in the development and manufacture of metal alloy vertical LED chips in blue (white), green and UV using its patented and proprietary MvpLED technology. The Company is also engaged in the manufacture of LED components.

LEDS is the smallest company on the list with a market cap of $14.2M. Its price has fallen 88% from its 52-week high after it went parabolic last year. Its EPS is expected to grow at the highest rate on the list (50%) over the next 5 years, and it trades at a modest P/S ratio for a growth company (2.7).



Overstock.com (OSTK)

Overstock.com is primarily an e-commerce service provider. The company sells its broad range of price-competitive products, furniture, decor, area rugs, bedding and bath, home improvement, outdoor, and kitchen, and dining items, among others. Its products are offered through www.overstock.com, www.o.co, www.overstock.ca, and www.overstockgovernment.com and the company's mobile app.

OSTK made a 52-week high in November and proceeded to fall 49% from there. However, the stock is currently attempting to establish a bottom and reverse the trend. OSTK offers the most ?value? of all the scan results with a forward P/E of 18 and a P/S ratio of 0.9. In addition, it trades at the lowest PEG ratio (0.5). Its investment in tZero, a blockchain-based digital trading platform, has growing potential given its recent partnership with ICE.



Block (SQ)

Headquartered in San Francisco, CA, Block, formerly known as Square, was incorporated in 2015. The company offers financial and marketing services through its comprehensive commerce ecosystem that helps sellers to start, run and grow their businesses. The company provides payment and point-of-sale (POS) services, which include hardware and software to accept payments, streamline operations and analyze business information.

SQ is down 52% over the last 6 months following choppy trading for most of 2021. However, impressive fourth-quarter earnings results and guidance helped the stock bottom at its February 2020 peak. The price is already hitting resistance at the 50-dma, so it may fall a bit and fill last week?s gap before establishing support.



Five for Friday

Five for Friday uses stock screens to produce five stocks that we expect will outperform if a particular investment theme plays out in the future. Investment themes may be relevant to the current or expected market, industry and/or economic trends. Investment themes may not always represent our current forecast.

Disclosure

This report is not a recommendation to buy or sell the named securities. We intend to elicit ideas about stocks meeting specific criteria and investment themes. Please read our disclosures carefully and do your own research before investing.