Shopify Inc. Nosedives 6.42%: Should You Buy the Dip?

Description

It was a brutal day for all tech stocks today as the NASDAQ exchange dropped 1.61% in a single trading session. There's no question that growth stocks have trumped value stocks of late, but could this start to change as high-flying tech darlings fall back to reality.

Shares of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) took a huge 6.42% plunge as many momentum traders jumped ship because of the industry-wide weakness in tech stocks we've seen lately. Shopify shares have had a huge run over the past year, and it's a risky proposition to consider investing in a company whose share price has seen a near exponential increase. Shopify has fantastic growth prospects, but the general public has become so bullish on Shopify that any negative headlines or signs of industry-wide weaknesses may result in a violent pullback of a greater magnitude than most other high-flying names.

Huge premium involved with buying shares at current prices

Shopify is arguably one of the hottest stocks on the TSX. The company is in the e-commerce industry, and the management team is firing on all cylinders. It's understandable that with great growth prospects comes a premium valuation, but what many investors may not realize is that there are additional premiums tacked onto the stock right now after more than tripling over the past year.

The company has a scarcity premium since there really aren't many pure growth tech plays on the TSX relative to the NASDAQ or NYSE exchanges south of the border. Since the Canadian dollar is quite low relative to the greenback, many Canadians would prefer to stay in Canada for their tech stocks, and Shopify is usually a top pick for many growth-hungry Canadians.

Many momentum traders and short-term thinkers have also jumped in to the stock simply because it was surging upward in an extremely bullish manner. Once the momentum slows down like we've seen over the past few weeks, momentum traders jump out of the stock in huge volumes.

In a previous piece published over a month ago, when shares of Shopify were trading near 52-week highs, I said that it would be a wise decision for prudent investors to take some profits off the table since Shopify has clearly soared above and beyond what’s realistic.

Bottom line

Sure, Shopify has phenomenal growth potential, and it’s still in the early stages of its growth cycle, but the valuation was getting ridiculous and the stock was treading on the fine line between investment and speculation. I believe the stock is still risky after Tuesday’s decline, and investors should expect more stomach-churning volatility going forward.

For investors who still own shares, it might be a good idea to start trimming, as a better entry point may present itself in the coming months. Patient investors who have stuck to the sidelines may finally see their patience pay off if the negative momentum continues.

Stay smart. Stay hungry. Stay Foolish.

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