



What Is a Fair Valuation for Shopify Inc.?

Description

With technology stocks declining significantly this past week, investors have been forced to reconsider valuations amid concerns that technology stocks' growth expectations and valuation multiples may be getting slightly out of hand. Investors willing to take money off the table have done so. Shares of highly touted technology stock such as **Shopify Inc.** ([TSX:SHOP](#)) ([NYSE:SHOP](#)) have dipped approximately 17% from highs seen earlier last month.

With the e-commerce boom taking hold of the technology sector as a whole, technology stocks that have the ability to take advantage of the industry-wide boom relating to anything e-commerce have seen exponential increases in valuations over the past year. Shopify is one of many e-commerce-focused stocks that has seen increased growth expectations and market share calculations priced into an equity valuation which has been rocketing upward for some time now.

With the incredible run in Shopify's share price seemingly taking a breather, investors considering whether to take a position or wait for additional downward momentum to take hold are looking for some sort of signal from the market as to which move makes sense. On Friday, shares of Shopify traded flat, suggesting the indecision for such investors waiting on the sidelines has been replicated in the market. Traders are uncertain as to the future directional movement of Shopify shares in the near term.

I have stated before that I believe the [long-term prospects](#) of Shopify remain robust, and investors considering adding to a position, even at these elevated levels, may be rewarded by doing so in the long run. After all, growth gems such as **Amazon.com, Inc.** have traded at elevated valuations for years or decades. Investors value the long-term disruptive nature of these businesses at a significant premium to what would otherwise be considered "sane" for most other investments.

Bottom line

Shopify remains one of the few truly amazing potential growth gems available on the TSX, and investors have certainly priced this stock as such. With the potential for an additional pullback to come in the coming weeks and months, investors may be best suited waiting on the sidelines and watching for additional pullbacks before pulling the trigger on a new position. That said, this may be the only

pullback investors will see, and any investor who doesn't jump on board right now may miss out. This is another case of patience vs. prudence; we will see which investors seem to have more of either over the next week.

Stay Foolish, my friends.

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Author

chrismacdonald

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