
# Why Now May Be the Time to Take Profits Off the Table with Shopify Inc.

## Description

With global stocks trading within a relatively low band of volatility for some time, represented by **CBOE Volatility Index** (VIX) numbers hovering below 10 for most of July (hint: that represents historically low levels of volatility), August has seen a bit of increased volatility. This has resulted in stock price swings taking over much of the discussion surrounding financial markets.



The large jumps in volatility have been reflected in the stock price of **Shopify Inc.** (TSX:SHOP)( NYSE:SHOP), a company who saw its biggest decline this past month on August 10 correspond with an increase in the VIX on the same day of nearly 30%. While other factors are at play here, and the fact remains that these two factors are tied together (not independent), it is interesting to take a look at a company such as Shopify as a quasi-volatility proxy, as many companies in the tech sector exhibit interesting stock movement patterns which are generally inversely related to volatility (see the stock price of **Amazon.com, Inc.** on August 10).

While many stocks may be inversely related to volatility (some funds actually benefit from increased volatility), it is interesting to think about how increased volatility over a given period of time may impact a company like Shopify. Technology companies generally rely on economic consistency to justify massive valuations. Any disruption in revenue or earnings growth attributed to a slowdown in economic activity due to economic issues which may become apparent in volatility data would certainly be a very bad thing for a high-growth company such as Shopify.

Stable is good for most firms, but an argument could be made that companies like Shopify that rely on triple-digit growth rates may be much more sensitive to volatility movements than the broader market. After all, should the VIX increase or decrease, a stable utilities firm with locked in revenue contracts for the next 15 years may be less susceptible to stock price movements than a company that could see its share price drop dramatically if it posted 80% earnings growth instead of 100% earnings growth analysts expected (which is not that far off from the truth in the case of Shopify).

### Bottom line

An important factor investors need to consider with a company trading at valuations approaching the stratosphere is that sensitivity to volatility, or geopolitical/economic issues that might lead to such volatility, can be a very bad thing for investors hoping for short-term gains. While Shopify's long-term business model looks appealing, unless a given investor is looking at the e-commerce company from the lens of a 10-year investment time horizon, I would steer clear of Shopify for the time being.

Stay Foolish, my friends.

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