



## Short Seller Goes After Shopify Inc.

### Description

I guess you can say it was only a matter of time. With **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock sky-rocketing 160% since January to highs of \$150, it was bound to get the attention of short sellers, who are eager to profit from the collapse of what they consider to be overvalued shares.

The market is reacting today to a report that was released by Citron Research analyst Andrew Left, who is making big claims that the company is an illegal get-rich scheme. He says that the company's claims that they have 500,000 client websites is false.

He points to the company's business partners or promoters, whose advertisements claim that Shopify can turn a "beginner into a millionaire" in 12 months, suggesting that people quit their jobs.

So, what does this mean?

Well, it could mean one of two things.

It could simply mean that this is a motivated short seller who is trying to manipulate the market in order for his position in the stock to make him a tonne of money.

Yet things are rarely so simple.

And where there is smoke, there is often fire. Doing a quick online search leads me to videos that smell like a get-rich scheme. I'm not sure what to make of it, but it does seem like many of the people who would sign up based on those promotions would not have much staying power.

Which leads to the question of churn. If many of the businesses that sign up for Shopify end up cancelling shortly afterwards, that is obviously a concern.

But even if we assume that everything is on the up and up at Shopify, there are still reasons for investors to avoid the stock.

At the end of the day, the fact remains that Shopify is in the early stages of its business development.

And right now, the stock has been trading mostly on revenue growth, which has been super impressive. The latest quarter saw a 75% increase in revenue versus the second quarter of 2016.

But sometimes, shares go too high, too fast. Shopify is in the stage of trying to actually turn a profit from what has been a fast-growing business. But the business model is untested, and we can only make educated guesses as to where we believe margins will settle and how the whole business will shake out. Translation: there is a mountain of uncertainty.

Add to that the valuation levels on the shares, and we move to even shakier ground.

Even after this ~10% drop today, valuations are still overly optimistic, in my view. Trading at 23 times sales and 12 times book value, the risk/reward relationship is not on the company's side.

Investors would be better off investing in another proven technology leader, like **Sierra Wireless, Inc.** ([TSX:SW](#))([NASDAQ:SWIR](#)).

## CATEGORY

1. Investing
2. Tech Stocks

## TICKERS GLOBAL

1. NASDAQ:SWIR (Sierra Wireless)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:SHOP (Shopify Inc.)
4. TSX:SW (Sierra Wireless)

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