



Is Shopify Inc. the Next Valeant Pharmaceuticals Intl Inc.?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) shares plunged as low as ~13% on Wednesday following a report released by the infamous short-seller Andrew Left of Citron Research, who triggered the downfall of **Valeant Pharmaceuticals Intl Inc.** ([TSX:VRX](#))([NYSE:VRX](#)) a few years ago. Mr. Left claims that Shopify is a “get-rich-quick scheme,” and that the company has been breaking the rules of the U.S. Federal Trade Commission (FTC) with its deceptive promotion tactics.

In several of my [previous pieces](#), I warned investors that the easy money has already been made, and that the company was entering speculative territory because of its absurd valuation. The company has not made a profit yet, and I urged investors to be cautious since the general public was overly optimistic, and the stock was just one negative headline away from tumbling.

Shopify is an incredible e-commerce platform, and the stock was riding a considerable amount of momentum, so I advised investors who were keen on owning shares to start with a small position with the intent of accumulating shares over time to minimize what I believed was a high amount of risk. Sure, Shopify was one of the hottest stocks on the TSX, and it was in the very early stages of its growth cycle, but still, everybody was greedy and overly optimistic. That’s usually a sign that you should tread very carefully.

Andrew Left calling on the U.S. FTC to investigate Shopify

Mr. Left released a short video on Shopify which urged the U.S. FTC to take action against what he believed to be a “scheme” which is comparable to **Herbalife Ltd.** ([NYSE:HLF](#)), a huge short of billionaire activist investor Bill Ackman’s, who, coincidentally, lost a huge chunk of his firm’s money by investing in Valeant.

Mr. Left alleges that Shopify, like Herbalife, is selling “business opportunities” with a majority of stores using “some dropship method and buying an opportunity to make money.” Mr. Left thought that shares of SHOP are worth US\$55 per share, assuming that the U.S. FTC doesn’t get involved. If he’s correct, that could mean that shares of SHOP could still stand to lose about half of their value after Wednesday’s double-digit percentage drop.

Should you dump your shares and cash out your profits (if you’d bought early enough)?

Mr. Left is a well-respected short seller who can and will do damage to a business he sets his sights on. He has an impressive track record and is very influential, which is really bad news for those who were hoping to buy shares of Shopify on any dips.

In a previous piece, I made it clear that SHOP shares were [overdue](#) for a potentially nasty plunge, possibly triggered by a negative headline. At the time, I advised prudent investors to buy on such a plunge; however, with Mr. Left and company involved, I’d urge investors to steer clear, as a tonne of downside could still be in the cards, especially since it’s likely that Mr. Left will be back with more dirt on the company sometime over the next few months.

If a U.S. FTC investigation ends up happening, that could mean shares could plunge even further, and you could lose your shirt in a hurry by attempting to buy shares on this dip.

Bottom line

I’ve been [skeptical](#) of Shopify’s valuation for quite some time now. Although the recent plunge may seem like a good buying opportunity, shares are still speculative and expensive around the \$120 levels. Although Shopify is a fantastic business with promising potential, I don’t like the valuation, and I don’t like that the company has a new-found enemy in Andrew Left.

If you own shares, I’d do some trimming and wait on the sidelines until the dust settles. The astronomical amount of risk is simply too much for the average investor.

In the worst-case scenario, an investigation led by the U.S. FTC will confirm Mr. Left’s claims. That could mean a Valeant-like crash could occur. The sentiment went from greed to fear in such a short time, so I’d be very careful if you’re thinking about accumulating shares today.

Stay smart. Stay hungry. Stay Foolish.

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2. NYSE:SHOP (Shopify Inc.)
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Date

2025/07/29

Date Created

2017/10/05

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