Shopify Inc. Stock: Risks of Aggressive Growth Investing

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) stock is tumbling after a U.S.-based short seller alleged the e-commerce software company is using deceptive business practices that violate Federal Trade Commission (FTC) laws.

Calling Shopify's business model and marketing practices a "get-rich-quick" scheme, the founder of Citron Research Andrew Left urged the FTC to start an investigation against the Ottawa-based company.

Reacting to this damning note against a darling of tech world, some nervous investors exited their positions, sending the Shopify stock down more than 16% in two days to $120.46 at the time of writing.

Shopify shares have almost tripled since its IPO in 2015 on rapid revenue growth, making the e-commerce platform provider one of the most highly valued software companies in North America.

Responding to Left's allegations, Shopify strongly defended its business model, saying it "stands resolutely" behind its mission and the success of its merchants.

This article isn't about discussing the merits and demerits of Left's allegations. Instead, I want to use Shopify stock's sudden reversal to highlight the mistake many amateur investors make: cutting the losses short at the first sign of trouble.

Investors should keep in mind that a company, which hasn't yet shown any profit, is a high-risk investment and can easily become a target of short sellers. Left is the same guy who crushed **Valeant Pharmaceuticals Intl Inc.** a few years ago.

By investing in tech start-ups, such as Shopify, growth investors take a greater risk as they bet on the company's future earning potential; they expect it to grow at an above-average rate compared to the overall market.

If you're one of these investors, then you're following a trend, and you need to be remain invested over a long period of time.

Balancing your risks

Having said that, there are many ways you can mitigate your risks if you like investing in growth stocks.

One of the most trusted ways is to invest in different growth industries. Look for innovation in areas other than technology, such as defence, agriculture, and retailing. You can diversify your risk by taking exposure to the most promising companies in these areas.

And if you want to create a long-term balanced portfolio with potential for both growth and income, then including some mature dividend-paying stocks in your portfolio isn't a bad idea.

There is no doubt that many of the top dividend-paying stocks belong to boring sectors, but these businesses have solid revenue-generating assets, which have passed market scrutiny long ago and have been rewarding their investors for many decades.

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