



Why Shopify Inc.'s Stock Could Take Off After its Latest Dip in Price

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) has seen its stock decline almost 20% this month, as criticism from Andrew Left of Citron Research has sent investors into a panic and led to a large sell-off. I would certainly agree that Shopify's share price was trading at a big premium for a company that has been unable to turn a profit, but, at the same time, I don't think the reasons for the stock's recent decline are justified. This has all the makings of a market overreaction, and it could present an opportunity to buy the stock on a dip.

Let's take a closer look at whether or not Shopify is a good stock to buy today.

This isn't the first time the stock has seen a big drop in price

Back in June, Shopify's stock price dropped from a then 52-week high of over \$133 a share to \$113 — a decline of over 15%. There was no earnings report that came out or any negative press; the decline could have just come from some large investors selling off gains. The sell-off lasted four days, with each successive day seeing lower losses until investors finally started buying up the shares again.

When the company released its earnings in August, it saw a similar decline, although the drop in the share price was more gradual.

In neither of those times did the stock approach an oversold status, as indicated by the Relative Strength Index (RSI), which looks at average gains and losses over the past 14 trading days.

Why this decline might be different

When Shopify had a big drop in price in early October, the stock dropped another three straight days afterwards, similar to what we saw happen in June. The share price managed a bit of a recovery a few days later, but it was nothing significant as of the end of last week.

Unlike the previous two dips the stock saw, Shopify's RSI level dipped below 30 this time to signify an oversold status. However, what makes this decline a bit different is that the very reason for the drop is due to someone questioning the company's business model. The claims appear to be unfounded and

without base, which makes me believe that the stock will rebound, especially if it has a strong earnings result at the end of the month.

Should you buy Shopify today?

Investors remember that Shopify is a stock that has nearly doubled its sales in each of the past three years, which is an incredible accomplishment. If there were concerns about the company's business model, we would be seeing the impact of that already. Negative press can have a damaging effect on a stock, but after some time the share price will likely find a way to recover, so long as the news hasn't uncovered something particularly damaging about the company that will affect its long-term future.

In the case of Shopify, I don't believe there should be concerns about its operations. In its latest quarter, the company saw its sales increase 75% from the previous year, and if Shopify can continue to build on that growth, then investors will likely look back at the stock price on this day as being an incredible bargain.

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