Shopify Inc. Soars to All-Time Highs: Are Investors Leaving Andrew Left Behind?

Description

It was all doom and gloom for **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) late last year when Andrew Left dropped his short report on the red-hot Canadian tech stock, stopping the momentum in its tracks, until now. Shares surged past the $150 ceiling of resistance to new all-time highs, and it appears that the general public has finally shrugged off some issues that Left took time to shed light on.

It has to be pretty scary for investors to own shares of a company that's under attack from a well-respected short seller who's taken down several high-flying juggernauts, including **Valeant Pharmaceuticals Intl Inc.** (TSX:VRX)(NYSE:VRX).

Unlike Valeant though, many of Left's allegations on Shopify have are lacking in evidence. Shopify really isn't doing anything that would warrant an SEC investigation — something that Left has been pushing for. Left isn't an oracle, by any means. His Valeant short report had its inaccuracies as well; however, his hunch was 100% spot on.

I believe some of Left's claims (churn and severe overvaluation) warrant a serious second look from investors, but this time the timing of Left's short report wasn't as opportunistic as it was when the Valeant report was released following Hillary Clinton's Valeant-killing tweet. Left is good at rubbing salt into the wound of companies, but in the case of Shopify, there was no wound; it was barely even scratched when Left decided dropped his "next lemon" report. There wasn't any extremely negative sentiment other than a slowdown in momentum and my previous piece initially drawing attention to Shopify's churn rate, which I doubt came to the attention of Citron.

While it appears that everyone has forgotten about Andrew Left and his short report, I'm still hesitant to own the stock because of very limited visibility on churn rates and the sustainability of Shopify's subscriber base, which I believe will be vulnerable to sudden spikes in subscriber outflows triggered by either a rise in competition or an economic downturn. The latter, I believe, is the concern that I'm most worried about, since I, like many others, am confident in Shopify's abilities to continue to deliver a top-notch product that's head and shoulders above its peers in the SMB e-commerce space.

Where is Shopify heading now?

In my last piece on Shopify, I'd noted that shares would likely move higher in 2018 because of the general public's affinity for explosive growth stocks. Shopify continues to trade at an absurd multiple (20 times sales), but then again, so do many other high-flying tech stocks, like **Square Inc.** At this point, it seems nobody cares about valuations, as long as a business is in a hot industry of interest.

At this point, Shopify is an extremely cyclical play that could experience a catastrophic meltdown come the next recession. When will the recession come? Nobody knows, but as a cautious investor, I'd recommend owning Shopify as a medium-term trade and not a buy-and-hold-forever position. Treat Shopify like you would an airline stock — a stock that could give you huge gains during an economic boom, though a huge chunk of those gains will stand to be surrendered come the next market crash.

Left's Shopify report has its inaccuracies, but I believe his hunch is right. He just released his report way too early, as the Shopify story still has ample room to run.

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