Shopify Inc. Investors: Why You Should Stop Listening to Short Sellers

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) has declined more than 20% since the stock hit highs of over $200 last month. The company didn't have a bad earnings report, nor did was it involved in a scandal. Instead, all it took were the irrational ramblings of a biased short-seller that's done this in the past. For the life of me, I can't imagine why investors keep listening to him.

The new allegations suggest that Shopify is tied up with **Facebook, Inc.** (NASDAQ:FB) and its recent data scandal. But of course, just like last time, there are no facts or hard evidence to back up these claims. Instead, the speculation relies on lines that are faint at best. Saying that Facebook has been key to Shopify's growth is about as obvious as saying that brick-and-mortar stores rely on foot traffic to generate revenue.

Beyond that, there's not much to prove that Shopify can't survive without Facebook or that it will somehow be doomed as a result of this scandal. In fact, Shopify isn't reliant on the social media site because it's made arrangements with many of its e-commerce sites to make it easy for vendors to sell products across multiple platforms.

Good news for opportunistic, rational investors

While this might appear to be bad news for investors that are bullish on Shopify, it creates a buying opportunity to load up on the stock at a reduced price. Shopify's business model is not any worse than it was a month ago, its financials are not any weaker, and it's just as good of a buy as it was before this report came out.

While this will set back the growth the stock has achieved this year, we've seen this play out back in October, when we witnessed a big sell-off after a critical report came out from the same short seller. However, Shopify's strong financial performance would ultimately propel the stock to the highs reached earlier this year.

Year-to-date returns for the stock are still north of 25% despite the recent decline, and in 12 months Shopify's share price has risen by more than 70%.

With the company still in the red and the stock trading at more than 10 times its book value, there's no denying that investors are paying a big premium to own a piece of Shopify. However, given the growth achieved over the years, it may very well be worth it.

Takeaway for investors

The best analysis you can do on a stock is your own. You're better off not listening to short sellers, as you always have to question their motivations, particularly when the goal is to encourage you to sell a stock.

It's important to always consider the context, which is why we always list any positions we have when writing about a stock, so that any biases – either real or apparent – are disclosed to readers. It's easy for some investors to get spooked, and a small decline could trigger stop losses and lead to a much bigger sell-off – not unlike what we've witnessed with Shopify.

The stock is still a good buy today with excellent growth prospects, but if you're considering taking a position in the company, you should do your own analysis and due diligence before making a decision.

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