



Shopify Inc. (TSX:SHOP) Has Soared +20% in the Past Month: Is it Still a Buy?

Description

Shopify Inc. ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been skyrocketing lately. In just the past month it has risen more than 20%. It also reached a new 52-week high of \$214.50 on Wednesday. However, the stock has had a very volatile history, and with it being on such a strong trajectory, investors may be wondering whether it's still a good time to buy or if the stock is due for a dip.

What's behind the recent spike in price?

The share price has been on a steep incline for the past two weeks, despite no major news hitting the company. It was a few weeks ago, however, that the stock took a dive on news that one of its rivals was being [acquired](#) by a big tech company. The developments spooked investors, as having a much stronger competitor with a lot more resources could make it harder for Shopify to grow.

However, that's also a long-term problem, and not one that would develop overnight, so a big sell-off was a bit overdone. It could have been this drop in price below \$180 that triggered many investors to buy Shopify on the dip, which has driven momentum up ever since. What's interesting about share prices is that sometimes their values can rise for no discernible reason, other than moves made by big money.

Shopify was also coming off a decent quarter at the start of the month, which showed lots of growth; however, it's unlikely that would have driven the results given the significant gap in time between when the stock price started to rise and when the results were released. In fact, the quarterly results were a concern given that Shopify projected much [less growth](#) for 2018 than in previous years, and many investors were bearish as a result of the uninspiring guidance.

Strong ascent has pushed it into overbought territory

The Relative Strength Index (RSI) helps to gauge the gains and losses relative to a stock over the past 14 trading days. The higher and more prevalent the gains are compared to the losses, the higher the RSI number is. Once we get to an RSI of 70 or higher, the indicator suggests that the stock is overbought, and that it could be due for a reversal.

At an RSI of nearly 77 at the close of Wednesday, the last time we saw it around this level was back in mid-March when the share price closed at over \$200. The stock would end up dropping below \$150 shortly afterward, although it has more than recovered since then.

Bottom line

Shopify looks like it has risen too sharply in recent weeks, and I would be inclined to believe that it's going to see some dip in price, especially since there has been no big development to justify or rationalize this impressive streak.

Shopify is still a very expensive buy at around 20 times book value, and a decreasing growth rate isn't going to help justify the big premium that investors are paying for it today. The danger with the stock is, we could see a scathing report about it tomorrow that sends investors back into sell mode.

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