



Warning! Shopify Inc. (TSX:SHOP) Is Primed for a Pullback

Description

What a run it's been. **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) is one of Canada's most successful IPOs of the past few decades. Since it began trading on the TSX in mid-2015, the company has returned 515%!

Canada's tech darling is showing no signs of slowing down. After a slight blip in late March and early April, the company has skyrocketed to new 52-week highs. Year to date, the company's share price has returned almost 63%, far outpacing the TSX Index and many of its growth peers.

Has the company's share price gotten ahead of itself? Let's take a look.

Analysts' estimates

Analysts are by no means perfect market predictors, but you can get a good sense of a company's valuation based on analysts' estimates. As of today's price of \$215.04, Shopify is trading above analysts' price targets. On average, analysts have a one-year price target of \$187.53, which implies 13% downside.

What is the most optimistic price target? Currently, the highest target is \$219.30, only slightly above its current share price. The company appears to be fairly valued based on these estimates. This is also reflected in the analysts' ratings. Despite 11 buys, there are also seven holds.

Technicals

One of the most popular short-term momentum indicators is the 14-day Relative Strength Index (RSI). The RSI measures a stock's price momentum and is used to identify when stocks are either overbought or oversold. An RSI above 70 indicates that the stock is overbought, while a rating below 30 indicates that the stock is oversold.

According to the RSI, Shopify's rating of 82.62 indicates that the company is firmly in overbought territory. What does this mean? Investors could expect short-term downward pressure on the stock.

End of story? Not quite.

Regardless of which Simple Moving Average (SMA) you pick, all signs still point to bullish! The SMA is the most popular technical analysis tool. The SMA helps investors analyze price trends and to identify buy and sell signals. Shopify is currently trading above its five-day, 10-day, 20-day, and 50-day SMAs. I could go on, but you get the point. In general, when a stock trades above its SMA, it means the stock is in a bullish uptrend.

Continued outperformance

Shopify is a high-growth company that is not yet posting positive earnings. As such, valuing the company based on traditional fundamental metrics can prove difficult. At this point, Shopify does look extended. Yet we must not ignore that the company's uptrend is still intact.

What does this mean for investors? Over the short term, I would consider waiting for a pullback before entering the stock or adding to your position. Over the long term, the stock remains a core holding in any growth portfolio. Expect Shopify to continue its outperformance relative to the index.

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