Shopify Inc. Is Overbought: Is Now the Time to Sell?

Description

After a slow start to the year, **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) has recovered quite well, with its share price rising around 70% year-to-date. But with the stock coming off a 52-week high recently, one question investors might be asking is this:

Is it time to sell Shopify?

Selling a stock can be more difficult decision than deciding whether or not to buy. It would take a great deal of luck to be able to sell at precisely the right time to maximize your profits, but unless you're planning to hold the stock for decades, timing will likely play a big factor in your overall return.

In Shopify's case, the stock has been very volatile in the past year, and it can be difficult to gauge where the stock is headed. One way that we can do that is by using technical analysis, specifically, the **Relative Strength Index** (RSI).

RSI calculates the gains and losses that a stock posts over the past 14 trading days; the heavier that the losses are relative to the gains, the lower the RSI number and vice versa. An RSI value of 30 and below indicates the stock is oversold, while a value of 70 and over indicates that it is overbought.

Currently, Shopify sits at an RSI level of around 70, and has been there for more than a week. The last time that Shopify's stock hit this high of an RSI level was back in March, when it closed at just over $200. The stock would go on to fall to below $150 in a steep sell-off soon after.

However, it's debatable as to just much this decline had to do with the stock being overbought versus Shopify receiving yet another critical report from Citron Research.

Valuation has been high for some time

From a value investor’s perspective, the time to sell would have been long ago; however, when it comes to tech stocks, valuations have limited power in predicting when a stock will go down. It’s not hard to find stocks on the NASDAQ that are valued at more than 100 times earnings, some are at multiples of more than 200 times earnings.

Shopify doesn’t have a price-to-earnings multiple because it’s missing the denominator in the equation. The company first needs to consistently post a profit in order for it to be able to have a useful multiplier. But with the stock trading at 17 times earnings and nearly 30 times its sales, it would be a big premium using any metric.

The stock is very expensive, especially for a company that softened its guidance recently.

Bottom line

Shopify’s share price seems to have gotten stronger for no discernible reason, and it could be overdue for a dip in price. If you’ve made a decent gain off Shopify, you may want to consider selling today, because the one thing the stock has proven in the past is that it can drop in value very quickly.

A high valuation, disappointing prospects for growth, increasing competition, and an indicator suggesting that the stock is overbought make it clear that the share price may not have much room to rise from where it stands today.

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