



## Is Shopify Inc. (TSX:SHOP) Too Volatile to Invest In?

### Description

**Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) is an erratic stock — and that's putting it lightly. For all the optimism and potential, its share price has been all over the place in the past year, making it difficult to even guess where it might go next.

We've seen Shopify's stock price drop just on [criticism](#) of its business model, only for it to inevitably rebound.

Most recently, the stock hit a peak of over \$232 a share, but as investors sought to cash in their profits, the price crashed back down to around \$190 for a decline of nearly 20% in just a few weeks' time.

Overall, Shopify's stock is still up 50% since the start of the year, but these fluctuations underscore the big risk of investing in the stock for the short term or for speculative reasons. Back in March, we saw a similar pattern happen when the stock first hit over \$200, only to then drop below \$150 a share. Since then the stock has gone on a significant rise in price, but there's no guarantee that it will happen again this time around.

The danger for investors is to assume that a pattern will simply repeat; that assumption could lead to big losses for speculative buyers.

### What should investors do?

If you're a Shopify investor, you've likely seen this happen before. And while there's no guarantee that the stock will recover to its previous high given that there was no negative news or earnings report to come out that would justify such a sell-off, this suggests that the stock could rebound.

The big problem for the stock is that it trades at very high multiples and it's hard to gauge at what price it's a good buy. With a price-to-sales multiple of more than 25 and a price-to-book ratio of 12, investors are paying a big price for a stock that has struggled to stay out of the red.

The only real way for investors to protect their portfolio is by investing in stocks with good fundamentals and growth prospects that are likely to succeed over the long term and overcome any

short-term volatility. And while Shopify's bottom line hasn't been strong, it has done a good job of growing its sales, which were up nearly 70% [last quarter](#).

While that is a great rate of increase, the company is expecting that to slow down significantly, which could raise alarm bells for investors.

### Bottom line

Whether Shopify is a stock for you depends on your overall risk tolerance and how bullish you are about the company's future. Risk-averse investors will want to steer clear of this overpriced stock, but for those who are willing to take on some risk in exchange for growth potential, it may still be a good buy.

Stocks with high growth typically attract a lot of bullishness, and if Shopify can continue on its strong trajectory, it could provide great long-term returns, but investors shouldn't expect a smooth ride there.

### CATEGORY

1. Investing

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2. TSX:SHOP (Shopify Inc.)

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