Shopify Inc.'s (TSX:SHOP) Stock Continues to Defy Expectations

Description

Shopify Inc. (TSX:SHOP)(NYSE:SHOP) continues to knock it out of the park. Year to date, the company has returned a whopping 72%! This performance is good for sixth among TSX-listed stocks, and tops among all large cap stocks. Large caps are defined as having a market capitalization of greater than $10 billion.

The company's current share price of $226.55 is 10.8% above analysts' average one-year price target of $204.45. Even analysts can't keep up with Shopify's performance.

The last time I discussed the company, I warned investors that the company was over-extended. On the flip side, I pointed out that its long-term bull trend was still intact and to buy on the inevitable weakness. I was right on all accounts.

Shopify's relative strength index (RSI) was firmly in overbought territory and within days of my article, it began to correct. It dropped 14%, hitting a low of $191 on June 29. Did you take advantage of the dip? Hopefully you did, we may not see sub-$200 prices again.

Upward trend intact

Despite bouncing off June lows, the company still has room to run in the short term. An RSI above 70 indicates that a company's stock is overbought and may be due for a correction. Shopify's current RSI is 62, which means it is neither overbought nor oversold. Shopify's RSI has been a very accurate indicator of price action.

Prior to June, the last time Shopify's RSI indicated it was overbought was in March. The company dropped from a high of $194 to a low of $148 before rebounding. If you take a look at Shopify's chart, you will see it is setting new higher highs and lower lows. This is very bullish.

In fact, there isn't a single moving average or technical indicator that is flashing red. They are all green.

Earnings: catalyst or headwind?

At this point, there are only three things that can derail the stock in the short term: a market correction, a one-time negative news event and poor earnings. Bears have been calling for a market correction since 2011. Although I do believe we're in the tail end of the nine-year bull market, I don't believe we are headed for a correction anytime soon. Keep in mind that a correction is defined by a drop of 20% or more.

Now that Shopify is on the rise, I don't doubt that Citron Research will come out with another short report. This is an example of a one-time news event. Citron has done this a few times over the past year. Each time the stock dropped and each time it rebounded quite nicely.

The imminent factor is Shopify's second-quarter earnings. The company is scheduled to release earnings next Monday, July 31. The company's stock price is prone to large moves the day of earnings. In May, the company dropped 10% the day it released first-quarter results.

The important thing to remember is that these are short-term headwinds – and that the company's long-term future remains bright.

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