



Why Is Shopify Inc (TSX:SHOP) Stock Crashing?

Description

Don't look now, but **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is falling yet again. In just the past month, the stock has dropped by more than 20%, as it hovers around three-month lows. This is, unfortunately, an all-too-familiar story for Shopify shareholders, who have seen the stock go on a roller coaster for the past year.

What is behind the decline?

Twice in the past couple of months, Shopify's stock has approached \$230 only for the share price to drop in price. To technical analysts, this suggests the price may have hit a resistance level. However, we saw a similar pattern when the stock was around \$150, and it eventually broke through that barrier.

But the recent drop in price doesn't look to be a result of resistance, but instead it's due to a disappointing quarterly report. At the end of July, Shopify reported its Q2 results, and there were [three things that I didn't like about them](#), including its declining sales growth. The concern for investors is that Shopify may soon hit a ceiling, and without the strong sales growth it has achieved over the years, there may not be much of a reason left to invest in the stock. After all, Shopify trades at a high price-to-book ratio, and it's unable to post a profit.

Is the stock a good buy on the dip?

Many investors will undoubtedly see the drop in price as a good opportunity to get in at a reduced price and wait for the inevitable recovery in share price. The danger, however, is assuming that just because the stock has declined that it will return to previous highs again. That's when you cross over from being an investor to a speculator, which is very risky territory. You only need to look at what happened with the Bitcoin bubble as an example of how quickly things can go off the rails.

However, the stock isn't a total loss, and it still has many opportunities for growth. Whether it's in new markets around the world or through augmented reality, there are many ways that Shopify can continue to pad its top line. The company has even become the platform of choice for many cannabis companies looking to [sell marijuana online](#). And with the growing popularity of cannabis and the expected boom that is likely to hit once pot becomes legal in October, Shopify could see a lot of activity

and generate a lot of revenue from the emerging industry.

Bottom line

Shopify's stock is at a crossroads here, and whether it recovers to \$200 or plummets to \$150 is anyone's guess, and a lot will depend on how it performs next quarter. From the bearish end of things, you can say that the stock is overpriced, and a lack of profitability makes it a bad buy. However, the bulls will tell you there's still lots of growth potential for the company, and that can send the stock soaring back towards \$230.

While it's not a suitable investment for risk-averse investors, there's a lot of opportunity here for those that are willing to take a chance on the stock.

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