



## Will Buying Shopify Inc. (TSX:SHOP) on the Dip Work This Time?

### Description

Buying **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock on the dip has been a [successful strategy](#) for many investors this year. Amid the extreme volatility in technology stocks, Shopify suffered many plunges this year. But each time, this e-commerce platform provider bounced back strongly. It hit a record high of \$232.65 a share on June 20 on the back of strong momentum.

But the question for Shopify lovers this time is whether the stock will recover from its latest slump the way it did earlier? Since July 27, Shopify stock has fallen about 20%. So, what's keeping investors so nervous this time that they're unwilling to take advantage of this dip? I think there are two main triggers that are prolonging the Shopify's weakness this time.

First, investors have become very cautious about investing in high momentum stocks since some earning misses from top technology names, such as **Netflix Inc.** and **Facebook, Inc.**

The fear of the tech bubble bursting after a remarkable bull run of the past 10 years is in the back of investors' minds, which is what's keeping them on the sidelines when it comes to investing in companies, which still have to show meaningful profitability.

### Slowing growth

The other reason that's more specific to Shopify is the company's slowing growth. While reporting the second-quarter earnings last month, [Shopify](#) beat analyst's average estimates for revenue and profit and gave an upbeat outlook for the rest of the year. But it also reported that growth in gross merchandise volume, the total amount of sales made by all the vendors on its platform, slowed for the third consecutive quarter.

This measure of growth has become important for investors since a famous short-seller, Andrew Left of *Citron Research*, warned last year that Shopify will soon hit a ceiling as the vast majority of small businesses that use the company's online platform are recruited by promoters, calling the company a "get-rich-quick" scheme.

For the second quarter, GMV rose \$9.1 billion, up 56% from the same time last year. That growth rate was 64% in the first quarter of this year.

### Bottom line on Shopify stock

It's tough to predict where Shopify stock will be trading tomorrow given its highly volatile trading pattern. But in the prevailing environment where investors seem to be taking a break from high-flying technology stocks, I don't see Shopify recovering from this tumble anytime soon. The prudent strategy for short-term investors seems to be waiting on the sidelines until the company reports its third-quarter earnings.

That said, Shopify runs a great business with a lot of room to grow at a time when e-commerce is replacing the traditional brick-and-mortar retailers globally. Shopify has been upping its guidance quarter over quarter ever since the company went public. And that means that its stock can become vulnerable to its own success.

### CATEGORY

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