



Shopify Inc. (TSX:SHOP): Buy the Dip or Jump Ship?

Description

The free lunch is over.

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has fallen into [correction territory](#) once again for the sixth time over the past year. This time it's courtesy of a broader pullback in high-tech growth stocks as investors are shivering over the negative implication from Fed chair Jay Powell's overly hawkish tone, which aims to combat inflation, potentially putting the stock market and the economy at an escalated risk of a slowdown.

Unlike Mr. Powell's predecessor, Janet Yellen, Mr. Powell isn't letting timely economic data influence his decision, which has many pundits calling for a faster and more furious rate hike schedule over the year ahead. That's scaring investors, especially those heavily invested in high-growth names, many of which have developed a considerable amount of froth of late.

Explosive growth names like Shopify are getting hit the hardest as investors move their money out of growth and into value. As this continues, I suspect much more downside pressure for Shopify in the near-term, and if the Fed triggers a recession, Shopify stock could easily fall back into the double-digits.

Shopify stocks could get crushed come the next recession

Shopify is a cyclical stock on steroids. With many of its small-and-medium sized clients on month-to-month subscriptions, an economic downturn would allow merchants to cancel their subscriptions at a whim as business sours in conjunction with the plunge in consumer spending.

Small businesses aren't as solvent as their larger counterparts, and as a result, the probability of insolvency is high once the economy heads south.

Simply put, a recession would hit Shopify where it hurts. And while the company's larger, more robust subscribers will likely stick around, it's difficult to quantify just how many smaller, lower-quality merchants will be headed for the exits at the first signs of trouble.

When is Shopify a buy?

In the grander scheme of things, Shopify is an outstanding growth king.

The company has several secular tailwinds (e-commerce, [marijuana](#), digital payments, SaaS) to its back. However, given that we're in the late stages of the current market cycle and the probability of a recession is quite high over the next three years, I'd advise just keeping Shopify on your shopping list for now, at least until after the swamp of lower-quality merchants has been drained after an economic downturn.

Stay hungry. Stay Foolish.

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