



Is Shopify Inc (TSX:SHOP) a No-Brainer at \$160?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) is a very [volatile](#) stock, to say the least. The stock climbed above \$200 in share several times in the past year, only for it to subsequently fall back down under it. The recent decline in the markets has put the stock near \$160, and it might be tempting for investors to consider buying the stock on yet another dip in price.

Buying on the dip can be a risky strategy, as you never can be sure that this isn't the time that the stock will actually fall further down in price. Just because it recovered back to \$200 doesn't mean it will do so again. The danger in looking at charts is thinking you've got them figured out and that you can just play the ranges.

While it may seem like a no-brainer to buy the stock at \$160 and just sell it back at \$200, since it may seem destined to go back there, it's by no means foolproof. The danger with Shopify stock is that it is very receptive to developments in the market. [Short-seller reports](#) have been enough to send the stock spiraling down on more than one occasion during the past few years. Although Shopify inevitably recovered, it's a dangerous reminder for investors that this is a stock that can fall – without warning.

However, there are some good reasons to buy the stock long term.

For one, I've always been a fan of its business model and ability to grow around the globe. With an online, service-based business, Shopify has few impediments to growth and is able to reach many vendors regardless of their geographic location. Although it's been growing at a remarkable pace thus far, it still has many opportunities to grow its business. While profitability may be a challenge for Shopify, once its growth starts to taper off, we might start to see more of a focus on cost-efficiency and a bottom line that's able to stay out of the red.

Another reason I like Shopify is that it's going to be a big benefactor from marijuana sales, with the recreational market being recently legalized and sales being predominantly online. Early indicators are that cannabis sales have been through the roof, and Shopify's next quarterly results will see some of that impact its top line, which could lead to a much stronger growth rate for the company. A strong showing in its earnings could easily propel Shopify stock past \$200.

Bottom line

While I'm not crazy about Shopify's valuation, especially with the stock trading at more than seven times book value and 13 times its sales, it's proven to be one of the best growth stocks on the TSX over the years. And for investors who see cannabis as being too risky, Shopify could be the next best thing.

If Shopify continues to dip in price it's only going to become an even better buy for investors. While I wouldn't suggest buying it for the sake of trying to flip it within weeks or months, I do see it as a great option for the long term.

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