

Is It Time to Sell Shopify Inc (TSX:SHOP)?

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) has been soaring since the start of the year and is now in 52-week high territory. However, with its share price rising more than 40% since Christmas, investors may want to be asking whether it's time to cash in their gains. Below are four reasons why it might be time to unload the stock.

It has gone into oversold territory

Shopify has been a very volatile stock over the past year and has seen a lot of range activity. While that alone doesn't mean that the stock is headed back down, there's definitely some risk for investors who want to hold on. One reason to consider selling is that its **Relative Strength Index** (RSI), which measures momentum and looks at a stock's gains and losses over a period of time, has indicated that the stock is in oversold territory. The last time the stock was at this level was back in June, when it was trading around \$229 and shortly afterward would proceed to drop to \$191.

Earnings coming out next week could result in a correction

Another risk is the company's earnings report, which comes out later this month. If the earnings miss, then the stock could be due for a big correction. Even if Shopify does well, the upside might be limited given how much it has already risen. Shopify's sales have been growing at a decreasing rate, and depending on how big of a drop we see, it could result in a big drop for the stock. Although generally Shopify has gotten a boost from its earnings reports over the past year, it also hasn't entered earnings on a high.

Valuation is through the roof

Currently, Shopify trades at around 15 times its book value and 27 times its sales. Those kind of multiples might be normal when looking at overpriced pot stocks that are fueled on promises of growth, but Shopify is a stock that is seeing its level of growth slow down. And investors are paying big premiums for a company that's still not able to turn a profit. With its [latest venture](#), there's less hope than ever that it will happen anytime soon.

It's always one bad report away from a big selloff

One of the reasons that Shopify's stock has been so volatile in recent years is because of how susceptible it has been to short-seller reports and their ability to send the stock into a tailspin. And the higher the stock goes, the more a drop it might be due to see. Shopify's a high-risk stock that has wild swings and it can take the slightest negative report to send it crashing.

Bottom line

Shopify has done very well to start the year, but investors need to keep a close eye on the stock due to its extreme [volatility](#). While it may be tempting to think that it'll just keep rising in price, it's also a dangerous assumption to make. Unless the company has an amazing earnings report this month, I'd expect another correction to be in the cards.

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Author

djagielski

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