



Why Shopify (TSX:SHOP) Is a Strong Sell Today

Description

Shopify Inc ([TSX:SHOP](#))([NYSE:SHOP](#)) could be due for a big correction soon.

The stock has done tremendously well already in 2019, with its share price nearly doubling and recently hitting a new all-time high. The stock closed at over \$368 on Friday, and reaching \$400 this year could well be a possibility. And although momentum alone can continue carrying the stock, it's just not sustainable, and investors shouldn't expect that the stock will stay this high for long.

The company's sales have been slowing down, and with Shopify taking on [new ventures](#), it's going to be more difficult than ever to get to breakeven. While it was able to squeak out another quarter of 50% growth, investors might not be as excited once sales growth falls into the 30s or lower. Meanwhile, expenses are going nowhere but up and are likely to put the company deeper in the red.

More expansion expected

Shopify recently announced that its workforce would double within the next three years — the news coming as the tech company opened a second office in Toronto. While that might suggest that a lot of growth is expected for Shopify, it also means a lot more cost and potentially more inefficiency along with that.

The problem is that I don't see the company's business model as being strong enough to handle competition backed by a big name like **Adobe** or now that Instagram will allow vendors to bypass Shopify when making a sale.

Overpriced and overbought

There are some serious headwinds facing the company today that make it shocking to me that investors continue to refuse to see these risks and keep on buying the stock. Given how well the stock has done this year, it's even easier to justify selling Shopify. Its valuation has completely gotten out of hand, as the stock now trades at around 20 times its book value and 35 times its sales at writing.

Investors are paying a massive premium for a company that's slowing down and facing tougher times ahead, which leads me to believe that we're seeing a lot of speculators and chart readers buying up the stock and fueling its momentum. The problem is that when there's little substance behind the impressive stock performance, it could suggest that a correction is coming.

Shopify's stock is also, unsurprisingly, trading in overbought territory as well with a **Relative Strength Index** (RSI) of 72. Once the indicator that looks at a stock's recent gains and losses, reaches over 70, it's a sign that there's been a lot more buying than selling happening and that it's in danger of a reversal. However, since February, Shopify has found itself in and around overbought territory several times.

Bottom line

It's hard to justify buying Shopify from either a growth or value perspective. While value investors wouldn't give the stock a second look today, even growth investors should be re-thinking whether it's a good idea to hold on. While the temptation might be to believe that the stock will continue going up, it's bound to slow down sooner or later. Worst case is that the stock could see a big, sudden drop in price, [which isn't unusual for Shopify](#).

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