
Did Shopify (TSX:SHOP) Stock Just Hit an Important Buy Point?

**Description**

Something interesting has happened lately, and I don't think many investors realize it.

For the first time in a long while, **Shopify** (TSX:SHOP)(NYSE:SHOP) stock is selling off in a meaningful way. After shares peaked at a little more than $430 each on the Toronto Stock Exchange, the stock has fallen some $55 to settle in at the $375 range as I write this.



A $55-per-share drop is a 13% decline. Shopify shares haven't seen this kind of downturn since December 2018, when the rest of the market was selling off aggressively.

This might be the buying opportunity long-term investors are waiting for. Or it could mean Shopify shares are poised to decline even further. Let's take a closer look at both sides of this important investing issue.

# The bull case

Over the last five years Shopify investors who've bought the dip have done extremely well.

The late-2018 sell-off is the perfect example. After peaking at more than $200, Shopify stock fell sharply with the rest of the market in November and December. Shares eventually bottomed at the $165 level.

A mere six months later, the stock has more than doubled off those lows. And that's after another sell-off. From trough to peak, the profit made by a well-timed Shopify investor would have been approximately 160%.

The last major sell-off before that was in 2017. Shopify shares peaked around $150 each in September 2017. Just a couple of months later, the stock had fallen to below $120. A year later, investors who'd bought the dip would have been up approximately 50%.

And let's not forget about the long-term bull thesis here either. Shopify is still growing like a weed, leveraging its position as the backbone of e-commerce for small- and medium-sized businesses to expand into other verticals like payment processing, receivables financing, and it is expanding its tools made available to physical retailers, too. Revenue is expected to grow at approximately 40% in 2019, but the company isn't expected to eke out a profit until 2020 at the earliest.

Sure, the stock is expensive. That much is obvious. But where else can investors get access to this kind of growth story?

## The bear case

Several analysts have come out lately and downgraded Shopify stock. These bearish notes were one of the main causes of the recent sell-off.

Wedbush analyst Ygal Arounian cited the company's "premium valuation" as a reason for his downgrade. There's no doubt shares are expensive; the stock has a current price-to-sales ratio of 21 times. To put that into perspective, the average S&P 500 member stock has a price-to-sales ratio of a little over two times.

Bulls argue there are plenty of reasons why the stock should be so expensive. But bears beg to differ, saying there's a difference between paying a premium for a great company and paying Shopify's valuation. The former is reasonable. The latter is just silly.



## What should you do?

In my +15 years of experience as an investor, I've seen very few companies fall a long way simply because they were overvalued. That's the danger of betting against Shopify shares today.

A lofty stock can easily become more overvalued as investor sentiment improves.

My view is this: if you're bullish on Shopify, buying shares on a significant dip is likely a good idea. You'll get exposure to a rapidly growing company that still has the potential to be a huge winner. And you're paying a more reasonable price than a few weeks ago.

There's no guarantee shares go up, of course. But the overall risk/reward ratio favours investors who buy the dips. And hey, it's worked out exceptionally well over the last few years.

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