



Shopify (TSX:SHOP) Has Been Flying High Since its IPO: Here's Why You Should Avoid it

Description

The initial public offering (IPO) of **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) on May 21, 2015, was epic, both on the TSX and the NYSE. Investors in both exchanges went wild. On the local bourse, the price closed at \$31.25, or 51% higher than the IPO price.

As of July 13, 2019, exactly 1,521 days later, the stock price is \$404.06. That is 1,192.99% over the closing price on opening day. Canada has never produced a legitimate tech star the like of Shopify. With the price [skyrocketing](#) by this much since the IPO, investors are warned to avoid SHOP.

Too high a price

I'm not sure about the number of profit takers who cashed in on SHOP while the stock was surging for more than four years. There were plenty, and more people came in to invest in the software maker that provides the platform for online merchants to do business and make money.

But with SHOP trading at an exorbitant price, would there still be takers? The trading volume in the last five trading days averaged 249,040 but I really doubt if there's room to play. I would be shocked if some analysts forecasted a higher price in the months ahead.

I agree with the observation that one day, Shopify could go head to head with **Amazon**. The company's mobile-centric e-commerce platform is complemented by impressive innovations. But I'm more concerned about [what's next](#).

Ambitions could hurt

Amazon is way ahead in terms of scale and would be very difficult to dethrone. The e-commerce company will not yield space to any competitor, particularly a hot-streaking Shopify.

Shopify's value proposition is great. However, the growth can no longer be by leaps and bounds if the

bottom line doesn't improve soon. Amazon has US\$10 billion net earnings available to create more inroads in the e-commerce market.

The leading multi-channel commerce platform should forget about running after Amazon and continue to do what the company does best. The pie is still growing with more merchants joining the bandwagon. It's not yet time to pick a fight with the heavyweight champion, and Shopify should remain in its weight class.

There are indications that **Facebook** and **Microsoft** are preparing to compete in digital and online sales. That would be a new threat if such plans materialize.

Focus on the lifeline

For as long as Shopify remains the ideal alternative to Amazon, the business will thrive, but growth will be at a less-rapid pace. The launching of the Shopify Fulfillment Network last month is a move in the right direction.

Network support is necessary to allow SMB merchants to ship a volume of 10-10,000 packages daily. The volume capacity is expected to triple eventually. More than anything, Shopify should focus on addressing the various needs of the merchants. The merchants are the lifeline.

Regarding the stock, I'm rooting for Shopify to succeed, but it's not wise to take a position now. A retreat might be forthcoming, and that could be huge.

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Date

2025/08/17

Date Created

2019/07/17

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