



## Will Shopify's (TSX:SHOP) Stock Drop Below \$400?

### Description

Shopify's ([TSX:SHOP](#))([NYSE:SHOP](#)) meteoric rise has been one of the best feel-good investment stories of the past few years. Often compared to **Amazon** ([NASDAQ:AMZN](#)), Shopify's stock has gained 1,156% since its initial public offering back in 2015.

In other words, a \$10,000 investment in the company's stock would be worth \$115,600 today, which isn't a bad return in only four short years. Shopify has bucked the trend, shaking off bears and short-sellers to [reach new highs](#) almost weekly.

In June, its stock blew threw the \$400 mark for the first time. It hasn't traded below \$400 since June 26 and has spent more than a month consolidating at prices above \$400 per share.

Unfortunately, trade war rhetoric has once again taken centre stage. As a result, the markets have been extremely volatile. In such markets, high-growth stocks such a Shopify tend to make big moves.

This past week, the company once again topped earnings and sales estimates, sending the stock soaring to new highs. Unfortunately, its upward trend was stopped in its tracks by renewed trade threats by China and the U.S. It dropped by \$12.80 on Friday, losing 3% of its value.

Although Canadian markets were closed on Monday, as a dual-listed stock, Shopify was still trading on the **NYSE**, where it fell by another 3.25%.

### The stock is overbought

It appears to be a perfect storm. On top of trade wars, the company's stock is also in overbought territory. The 14-day **Relative Strength Index** (RSI) is a key technical performance indicator used by investors to gauge whether the stock is overbought or oversold.

An RSI above 70 is an indication that the stock is overbought and may be due for a short-term pullback. I stress short term because these are trading metrics and don't reflect on the company's long-term prospects and ignores fundamentals.

As of writing, Shopify's RSI was sitting at 74, and as such is considered to be overbought.

## What to do if it dips below \$400?

We've been here before. Any time that Shopify suffers significant short-term drops, it bounces back stronger than ever.

In early June, it dropped by 14% over a few days from \$434 to \$373 before resuming its uptrend. A similar drop occurred in May and again this past fall.

A drop below \$400 is entirely possible. The important thing to consider is that each time, it has proven to be a buying opportunity. Shopify is a market leader with some of the [highest expected growth rates](#) on the **TSX**.

Given that the company has beat on earnings estimates every quarter since it went public, growth rates are likely to be on the low side.

If Shopify dips below \$400, it would equal a double-digit drop. If history is any indication, it will be time to back up the truck.

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1. Investing
2. Tech Stocks

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