Do You Need to Sell Shopify (TSX:SHOP) Before the Recession?

### Description

Canada's blue-eyed stock, **Shopify** (TSX:SHOP)(NYSE:SHOP), has created massive wealth for investors. The stock is up by an impressive 148% this year and returned a whopping 1200% since its initial public offer in early 2015.



But now investors are spooked amid fears of an economic slowdown. The yield curve in the United States and the United Kingdom has recently inverted, sparking a global sell-off yesterday.

The yield curve has been an important indicator of the economy. Every recession has been preceded by an inverted yield curve in the last 50 years. So, what should Shopify investors do if recession fears come true? Is it time to book profits? It definitely seems a rational choice.

## Technology stocks are worst hit in a downturn

Technology stocks have a high beta and grossly underperform stock market indices in a bear market. Tech stocks such as Shopify are overvalued and trade at a hefty premium.

Shopify has a market cap of $52.6 billion, which means that it's trading at 26 times its 2019 sales. The company is still posting a GAAP loss.

We have also seen that Shopify is investing heavily in fulfillment centres that will help it store inventory and products instead of channel partners, and it might hurt profit margins unless Shopify successfully scales this up. International expansion might also take a toll on Shopify's cash reserves and bottom line.

Generally, high growth metrics support premium valuations but this is not the case when markets are in the midst of a sell-off. **Amazon** shares fell 94% between December 1999 and September 2001 during the dot com crash. It again fell 56% between December 2007 and November 2008 during the last recession.

It is quite possible for Shopify investors to lose significant wealth if they hold on to their positions. The technology sell-off in the last quarter of 2018 resulted in Shopify losing close to 15% in market value. This time the fall might be much bigger.

Technical indicators don't mean a thing in the long run. Currently, however, Shopify stock is trading in overbought territory with a 14-day RSI score of 71. An RSI score of 70 indicates that a stock is overbought.

## So, when do you buy back the stock?

Shopify investors need to keep an eye out and buy Shopify at every major dip. Investors can never be sure when a stock bottoms out or are on the verge of a breakout. This company is a long-term winner with enough growth potential going forward.

In the last reported quarter, Shopify sales were $362 million, a rise of 48% year over year. It beat analyst earnings estimates by 366.7% in the second quarter. Analysts estimate sales to rise by 43.2% to $1.54 billion in 2019 and 33.6% to $2.05 billion in 2020.

Comparatively, its earnings are estimated to rise at an annual rate of 53% in the next five years. Shopify is improving bottom line at a robust rate and is expected to be profitable by the end of 2022.

Shopify's earnings beat in the second quarter drove its stock higher by 13% since the start of August 2019. The stock is trading just 5% below its all-time high of $492.5. If there is a time to sell Shopify, it is now.



**CATEGORY**

1. Investing
2. Tech Stocks

**POST TAG**

1. Shopify
2. Shopify Stock

**TICKERS GLOBAL**

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Investing

2. Tech Stocks

**Tags**

1. Shopify
2. Shopify Stock

**Date**
2025/07/05
**Date Created**
2019/08/17
**Author**
araghunath