



If You Buy These Stocks, You Are a Gambler, Not an Investor

Description

I've always been a more conservative sort of investor. For about 99% of my holdings, I focus on stable, dividend-paying stocks that raise their dividends over the years. This strategy has been successful over the years, producing results that have been stable and consistent, if not exciting. I find the income and stability comforting, leaving the volatility of much of the market largely behind me.

Nevertheless, I can't help but be drawn to growth companies like **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Lightspeed POS** ([TSX:LSPD](#)). Their staggering returns have challenged my cautious stance, as I see the share prices double and triple in remarkably short amounts of time. These companies move up and down at a dizzying pace, with 5-10% daily moves being a regular occurrence.

There are numerous reasons why these stocks are in high demand. Their growth rates, especially revenues, are quite impressive. Where mature companies are growing their revenues in the single digits, Shopify saw revenue growth of 50% in the second quarter of 2019 year-over-year and Lightspeed saw its revenue grow by 36% for full-year 2019.

Missing out on the huge upside in these stocks does make you feel a little silly as a cautious investor, that's for certain. But for me, the possibility of possible losses hits my mind harder than the possibility of gains. I just can't help but look at the valuations on high-flying companies and think that they are destined to fall.

After all, those numbers can be deceiving. Even with the 36% revenue growth reported by Lightspeed, you have to consider that its full-year 2019 revenue was still \$77 million on a market capitalization of \$3 billion. Shopify's revenue was US\$356 million on a market capitalization of almost US\$44 billion.

To put that in perspective, a mature, secure company like **Nutrien** had sales (very similar to revenue) of US\$8 billion on a market capitalization of US\$30 billion. Even if Shopify, for example, were to continue growing its revenues at a rate of 50% continually, it still would still be overvalued at the current share price for years. This is especially funny since Nutrien grew sales year over year at a rate of 7%.

Think about that for a moment. Nutrien grew its revenues by more than US\$550 million on an absolute basis. That is US\$232 more than Shopify's entire revenue reported in the second quarter.

Nutrien also had US\$1.5 billion in free cash flow, more than Shopify's entire 2018 full-year revenues. Yet Shopify commands a higher market valuation than Nutrien by almost US\$10 billion. Tell me how that makes sense. Of course, I won't bother talking about either Shopify's or Lightspeed's earnings, since they don't yet have any of note.

The bottom line

You'll notice that I did not say anything about [Shopify's](#) or [Lightspeed's](#) businesses. The reason is simply that as far as I can tell, their businesses are excellent. If I could buy these shares at a reasonable price, I would be all in. I love the growth, platforms, and the solutions they provide. But the simple fact of the matter is that the shares are enormously overpriced, which significantly increases downside risk.

Nor am I predicting the shares will fall in any given amount of time. They are no longer investments but trader's stocks. If there's one thing I have learned, it is that assets (houses, bonds, stocks, Bitcoin, whatever) can run on far longer than what makes sense. This doesn't mean it's not a good company, it's just that the stock is disconnected from fundamental reality.

My goal is generally not to speculate, but to buy assets at a reasonable price. I just don't think that is the case with either Shopify or Lightspeed. If you are a gambler, take a shot on these stocks. I threw a couple dollars at Shopify to see what would happen. But don't think that at these valuations these stocks are secure, steady investments. The good news, though, is that your odds are probably higher than in a casino.

CATEGORY

1. Investing
2. Stocks for Beginners
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:LSPD (Lightspeed Commerce)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Stocks for Beginners
3. Tech Stocks

Date

2025/08/26

Date Created

2019/08/30

Author

krisknutson

default watermark

default watermark