Shopify (TSX:SHOP) Stock Went From Sexy to Scary… Could the Vicious Sell-Off Get Even Worse?

Description

Last week, we witnessed a violent rotation out of growth stocks and into value names, although you wouldn't know it from just looking at the **S&P 500** or **TSX Index,** both of which were reasonably flat relative to the weeks prior.

If you went all-in on high-growth names like **Shopify** (TSX:SHOP)(NYSE:SHOP), your portfolio took a considerable hit to the chin over the last few trading sessions, with shares now down 18% from the top.

But if you kept a diversified mix of stocks with an emphasis on value, you probably ended the week higher, while your momentum-chasing peers got punished severely with triple-digit declines across the board.

Indeed, the biggest winners over the past year have suddenly become the biggest losers thanks in part to the recent uptick in bond yields that have decreased the aggregate investor's appetite for high-multiple growth stocks.

And the losers — the dirt cheap Canadian banks, are suddenly looking pretty darn attractive again despite their industry headwinds.

As one of the hottest stocks on the TSX, Shopify has been a name that's defied the odds and the shorts, including the infamous Andrew Left, who's still as bearish as ever on the name.

On July 30, I warned investors that Shopify stock was at high risk of losing over 40% of its value within nine months and that "sexy would become scary" once the tides finally turned.

With such a violent growth-to-value rotation exhibited in the markets, the tides have already begun to turn, and those hanging on may be guilty of swimming in the investment waters without trunks at these nosebleed level valuations.

“With such sexy stocks, it’s that much tougher to gauge [the] intrinsic value while the stock soars with analysts that collectively raise the bar on their price targets *after* the fact,” I said in a prior piece.

“That leaves many late investors at risk of losing both their shirt and pants if they bought the stock based on its momentum and wouldn’t be willing to buy more shares on a significant pullback.

While it’s all right to get a bit of skin in the game while the stock trades at nearly 31 times sales and 590 times forward earnings, it makes no sense to do so if you’re not willing to double down on your position after a big plunge.”

So, with Shopify stock now flirting with bear market territory, is now the time to double down? Or could Andrew Left be right with his US$200 price target on shares of Shopify, which implies a violent +50% peak-to-trough crash?

I don’t think now is the time to buy.

In the grander scheme of things, this 18% correction is a tiny blip. The stock is still insanely expensive, and if we haven’t seen the last of this growth-to-value rotation, Shopify investors could be in for a real doozy.

You can be sure Left will opportunistically take advantage of the media limelight to rub more salt in the wounds of the company that went from sexy to scary over just a week’s time.

Don’t say you weren’t warned!

Stay hungry. Stay Foolish.

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joefrenette