



## Want to Be Rich? Here's the Opportunity for You

### Description

There is an old saying in the investment world that goes something like this: "Bulls make money, bears make money, pigs get slaughtered." Well, I primarily believe that buying and holding long is the best way to make money in the stock market. Buy excellent companies and hold them for the long term to build wealth and don't mess with them too much.

But every now and then an opportunity comes along that seems too good to ignore that goes against this standard view of investing. Right now, probably the best opportunity there is for explosive returns on the stock market is [a bearish call](#) on **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) shares. Even after the recent losses the stock has posted, there is still an opportunity for more downside.

For many of you out there, that probably defies the odds. Shopify has gone up an enormous amount in a short amount of time, more than doubling for the year. I hope to convince you that this will be a great opportunity to take a swing at getting a home run on a downturn in Shopify's share price.

### The losses are limited, but the upside is enormous

Before we begin, I DO NOT recommend shorting Shopify. The stock has proven that it can move up very quickly — a situation that can rack up enormous losses if this call turns out to be wrong. It also only pays a one-to-one payoff, making gains relatively slow.

Nor am I making any claims as to the viability of the company. From what I can tell, it is an excellent company. Its shares are just horribly overpriced. In fact, should the shares fall to my strike price, I will likely use some of the proceeds to buy shares of Shopify at the lower level.

I recommend taking a swing at the stock through the use of deep out-of-the-money put options. Deep out-of-the-money options are highly leveraged and will result in a massive payoff if the call works out. It will also limit your downside should Shopify continue its march upwards or stays flat. Your losses will be limited to the amount of money you pay for the put options.

[Shopify](#) is an excellent candidate for a bearish call for a number of reasons. First, it is extremely volatile, so options tend to be more expensive and increase more rapidly than with more conservative stocks due to the way options contract prices are calculated. If it falls rapidly, the options will increase

substantially in value.

It's share prices have begun to go parabolic, essentially straight up in value. Even as fantastic as its revenue growth may be — it increased by 50% year over year in the second quarter — that does not justify its present share value.

Finally, we are at the end of the year, and many big funds might be wanting to lock in their tremendous gains on the stock. This could put downward pressure on it which could then speed up further if it becomes a tax-loss-selling candidate.

## The options strategy

Build a ladder with put options. I started really deep, with US\$120 call options. As the stock has moved higher, I continued to build the ladder of options by purchasing options every US\$20 of strike prices. When the lower options dropped to 90% of their original value, I bought nine more put options bringing the total up to a maximum of 10 contracts per strike.

Also, set up a maximum amount you are willing to risk on this strategy. This is a gamble on both timing and the depth of the drop. If the timing is wrong, you will lose all of the premium. If the stock continues to rise indefinitely, you will lose all the premium. If it stays the same or only falls slightly, you will lose all your invested premium.

## The bottom line

This is a high-risk strategy with the very likely possibility of the total loss of your invested dollars, so don't take buying out-of-the-money put options lightly. And don't bet the farm on it, since this is a VERY high-risk strategy. But it has the very real potential for a massive payoff should Shopify stock continue to fall sharply.

Personally, I have now sold my Shopify shares and am all in with put options. I rarely take a bearish position on a stock, but in this case, I believe downside in share price is far more likely than upside at this point.

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