Why Jim Cramer Is Right to Sell Shopify (TSX:SHOP) Stock

Description

The market has overvalued **Shopify** (TSX:SHOP)(NYSE:SHOP) for a while. It is no secret, and Jim Cramer is far from the only finance guru raising the alarm to sell the stock.

A good friend of mine made a lot of money on Shopify the past two years. I emphasized to him the importance of selling the stock because it was clearly overbought. Although hesitant to close his position in case the price appreciated to $1,000, he decided it was the right time to sell directly before the secondary offering announcement.

In the past five days, Shopify went from selling for $467 per share to less than $430. What happened? Shopify announced a secondary stock offering of 1.9 million class A subordinate voting shares to raise additional capital.

Jim Cramer said it perfectly: "But I said to myself: 'You know what, this stock has been parabolic … and I don't trust parabolas.' I don't like them. I have lost more money on stocks that went into parabola mode than I care to admit." What he meant is that Shopify's price had hit a graphical peak, and it began moving downward in the shape of a parabola.

Who owns Shopify Stock?

Shopify's CEO Tobias Lütke overinvested in his company; for a good reason, he is biased and wants to invest in his personal dreams. As of December 2018, Lütke owned 63.98% of Shopify's class B shares.

Lütke is a computer programmer from Germany. His wife Fiona McKean is politically well connected in Canada through her father Bruce McKean, a former civil servant. It is likely that between Mr. & Mrs. Lütke, they were able to raise substantial capital externally through wealthy friends.

Shopify is also great at public relations, and the company's communications team has done an excellent job at generating investor excitement over the stock. Even though Shopify is more of a web-hosting platform along the lines of **Wix** and **GoDaddy**, many commentators mistakenly compare

Shopify to **Amazon**. Amazon and Shopify have two very distinct business models.

What goes up must go down

Shopify stock surprised investors on both the TSX and the NYSE with a 200% run in price over the past 12 months. For a stock that issues no dividends, negative margins, and low cash flow growth potential, Shopify's success was indeed an unpredictable occurrence. Granted, new investors can learn much from analyzing the actual reasons behind Shopify's stock performance to improve their ability to prophesy the unforeseeable.

The stock's decline was less difficult to predict. It is much easier to accurately be a bear when the market is bullish than it is to be a bull when the market is bearish. In the stock market, the odds are often more in favour of pessimists, especially in this economic climate.

My main concern in Shopify was not if it would go down, but who would gain from my losses when it was to suffer a deterioration in value. I imagined a billionaire cozily profiting by selling a significant stake in the company while I work with the far-off hope of one day retiring. Smartly, I did not want to make anyone with more money than me any wealthier.

CATEGORY

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

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. 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
2025/08/27
Date Created
2019/09/18
Author
debraray