



Shopify (TSX:SHOP) Stock: Is it a Bull Trap?

Description

In the summer, I'd discussed whether several of the top cannabis stocks were [bull traps](#) for investors. A bull trap in stock market trading is an inaccurate signal that shows a decreasing trend in a stock or index has reversed and is now heading upwards. **Horizons Marijuana Life Sciences ETF**, which broadly follows the cannabis sector, enjoyed a brief uptick in August but has since resumed its steady decline.

We are not focusing on the cannabis sector today. Instead, I want to look at a tech stock that has achieved monster returns so far this year; **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)). Shares of Shopify have climbed 129% in 2019 as of early afternoon trading on October 4. However, the stock has dropped 15% over the past month.

Is Shopify a bull trap?

Shopify stock fell into technically oversold territory in late September. This was short-lived, and the stock has quickly climbed back over the \$400 threshold in October. The company has battled its fair share of short attacks over the past several years. Notable short-sellers include Andrew Left, who has argued that the lack of data from Shopify on its merchants is a red flag.

Barry Schwarz, chief investment officer at Baskin Wealth Management, has gone as far to compare Shopify to Nortel because of its sky-high valuation. He also cited Canadian companies like Valeant and **BlackBerry**, whose stocks suffered precipitous drops over the last decade. Is Shopify [too risky](#) to add at current price levels?

Investors who are looking to jump into Shopify should inform themselves about the risks and the potential to be burned, but this is also a company with a very promising growth trajectory. This growth will be largely dependent on its ongoing international push. Shopify has acknowledged that it needs to branch out from its dominant English-speaking user base. Recent reports indicate that Shopify has started to build a team in China.

A recent report from ResearchAndMarkets projected that the e-commerce software and platform

market will post a CAGR of 19.1% from 2018 to 2026. Right now, North America and Europe are the largest markets for this technology. The next decade will see wider adoption globally. Shopify is setting itself up to be a leader in this push.

Should you buy Shopify stock today?

Shopify stock has been a remarkable growth story in 2019. It is hard to bet against it in the final months of the year. Investors who are looking to chase the trend should keep in mind that Shopify has yet to turn a profit. It is operating in an increasingly competitive space that is being occupied by other giants like **Microsoft** and **Amazon** web services.

Revenue has soared above \$1 billion at Shopify, but this has not translated to higher margins. On the contrary, its profit margin and operating margin are stuck in negative territory. Shopify has burned those who are concerned with its fundamentals, but I'm going to stay stubborn in the final months of this year.

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