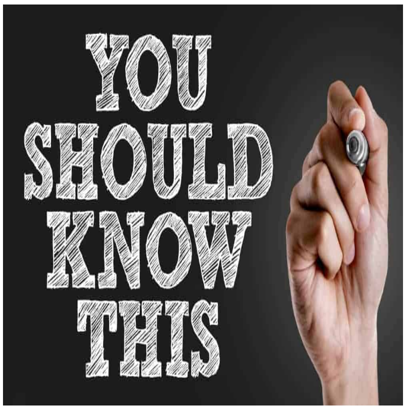

Shopify’s (SHOP) Stock Price Soars As Short Seller Throws in the Towel

Description

Since going public, **Shopify** (TSX:SHOP)(NYSE:SHOP) has been one of Canada’s most prolific stocks . Shareholders who were lucky enough to get in on the company at its IPO price would be sitting on gains in excess of 1,450%! One of the downsides of being an industry disruptor and one of the top performers as that there will always be skeptics.

In the markets, these skeptics take many forms, but one of the most polarizing is the short seller, which is a bearish investors who makes significant bets against the company. In extreme cases, a short seller will spend considerable time and effort trying to market their bearish outlook to the masses.

In Shopify’s case, it was attacked repeatedly by notable short seller Andrew Left, Managing Partner at Citron Research. Citron is known for making big marketing splashes.

It wows retail investors with fancy graphics, videos and pages of pages worth of information. The problem with this approach is that it is akin to fear mongering.

When it first began to short SHOP, Andrew Left released a video detailing how the Federal Trade Commission (FTC) would take notice of the unique software as a service (SaaS) business model.

The video had its intended success: SHOP dipped by double digits in the days following, yet nothing from the FTC ever materialized.

As the markets warmed up to the SaaS leader again, it blazed to new highs. Over the years, Citron predictably put out new short reports on the company as it rode momentum to outsized gains. The good news, is that the markets quickly adapted to Citron’s game and the last “Hail Mary” fell flat.

Citron Research’s most recent short report came last April when it made a bold claim: Shopify would crater to US$100 per share. At the time, the company was trading at $198 per share.

In effect, Left and his team expected this tech giant to lose 50% of its value. Along with the report, it also lobbed the following: if SHOP was trading at more than $200 per share within a year, it would donate $200,000 to the Robin Hood Foundation.

The last report reeked of desperation and was a classic example of fear mongering. In turn, the markets largely ignored the report. What happened next?

The software leader went about its business hitting new 52-week highs almost daily. As of writing, the company is trading at US$414.00, more than double the amount seen when the last short report surfaced.

It is therefore not surprising, that earlier this week Citron Research effectively threw in the towel on the SaaS company. It is welcomed news for shareholders. In Andrew Left's Annual Investment Letter, he had this to say:

> *"While we were fortunate not to be short Tesla in its recent surge to over $420, we had a small position in Shopify turn into a large loser as we ignored the bigger story of what we believed was an overpriced SaaS company with competition looming. Either way, going forward this type of story is too large for us to get our little hands around."*

Admitting defeat is not easy, and Citron should be commended for recognizing the error of their ways. Just as Andrew Left learnt from his experience, so too should retail investors.

There are times when short sellers' thesis will be correct, and others when it won't. The key lesson for investors is not to get swayed by fancy reports, and oodles of information. The one who screams loudest isn't necessarily the one that is right.

It is critical for investors to do their own due diligence. Over the years, I have recommended that investors ignore the short sellers. All signs pointed to Shopify as a healthy, and financially stable industry leader that was exceeding expectations. It remains as such.

CATEGORY

1. Investing
2. Tech Stocks

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