# Is Shopify Inc. (TSX:SHOP) a Buy in a Frothy Market?

## Description

The markets are getting tumultuous. At one point it seemed that people were beginning to consider cashing in their gains from the past year — and the next it seemed that everyone was jumping back in. With all the gains this year, investors might be tempted to cash in some of their earnings, even panicking as markets have sharp downtrends.



While it might be early yet, it can't hurt to get ready to purchase some stocks if markets really take a hit. So what might be some good choices for a blood-in-the-street style purchase? It might be a good idea to look at what is expensive that might be set to come off sharply if things start to fall apart.

Tech stocks are probably the best place to look, as they will probably be the ones to come off the hardest. Their valuations are quite rich for the most part, they are largely trading on momentum, and investors with big gains will be likely to sell and lock in profits if stocks start moving in reverse.

Of course, you can't start off an article on tech stocks in Canada without looking at everyone's favourite tech stock, **Shopify Inc**. (TSX:SHOP)(NYSE:SHOP).

This stock has doubled in just a few months if you purchased it at about $300 a share a couple of months ago. If you didn't buy any shares at that time, you still could have another chance if it begins to move downward.

This stock is not cheap at all at these levels. I have to admit that I've been wary of the stock based on its valuation for some time. This stock is trading without much in the way of earnings, with a price-to-earnings ratio. Currently, Shopify boasts a forward P/E ratio of 555 times earnings, which is astronomical.

If Shopify does go down, it will go down sharply. This was already proven when the shares dropped about 25% in a very short time. Yes, they have rebounded, but that did prove that the shares are subject to a significant amount of volatility when the market turns against it.

The problem is not with the company, but rather with the stock. It has been said many times that just because it's a good company doesn't mean it's good stock. This is especially true in the case of Shopify. As a business, it's been performing rather well, operating in a growth space, e-commerce. As well, it's a leader in that space.

This has translated into largely positive results. In the latest quarter, Q3 2019, Shopify posted positive growth in practically all areas. It announced a 45% increase in total revenue for the quarter and a 37% increase in subscription revenue. Subscription revenue largely consists of recurring revenue, a key metric for the company.

The biggest knock against the company is the fact that it's still losing money, with a net loss of $72.8 million in Q3. Hopefully, this will turn around leading the company to become a more profitable business.

## Should I buy Shopify today?

If you buy shares today, you will be setting yourself up for a very volatile ride. If you already own shares and want to hold them for the long run, it could be fine.

This company could pull back pretty sharply if the market continues to move downward, so it might be a better idea to wait and see if the stock will move to a lower level before purchasing new shares in this expensive company.



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