



## Why The Shopify (SHOP) Stock Price Beat the TSX Index by 69.5% in March

### Description

The **Shopify Inc.** ([TSX:SHOP](#))([NYSE:SHOP](#)) stock price had a great March. In fact, it has had a great year. This is both encouraging and revealing in this sea of red losses that we find ourselves in.

In March, all eyes were on developments related to the coronavirus. Societies are attempting to lessen the human toll of this virus. They are doing this by taking measures that were unimaginable only a few months ago. As the realities of social distancing and isolation became increasingly clear, the economic fallout also became crystal clear.

For Shopify, [the fallout has not been as severe as for many](#). But let's be clear, there is a fallout. It's true that Shopify benefits from the fact that its clients are e-commerce businesses. It is also true that the company is heavily reliant on discretionary spending. So we can therefore see two opposing forces here.

The question we must answer is which force will be greater. Will the increase in e-commerce business offset the fall in discretionary spending?

## Shopify stock price outperformed the TSX because of its online, “physically isolated” e-commerce clients

Throughout this crisis, Shopify is seeing bricks-and-mortar businesses shifting to online. It is a rapidly evolving situation, but this makes absolute sense. Shopify's operating system for e-commerce is in the sweet spot today more than ever. The company was already benefiting from the rapid growth of e-commerce. The COVID-19 crisis is accelerating this growth significantly.

This pandemic is unlocking the benefits and revealing the necessity of having an online presence. An online business is exactly the type of business that can withstand the pressures of today's environment. We do have to recognize [the hit to discretionary spending that is coming](#). In this respect, Shopify's clients are vulnerable. The degree of their vulnerability is much lower than that of physical stores though.

## Shopify stock price beat the TSX because of its operating leverage potential

With rising revenue, we will see rising operating leverage. If revenues rise faster than previously anticipated, so will margins. This increase in profitability and efficiencies will flow through quickly to the bottom line. In 2019, Shopify's operating margin was 2.7%. With more scale and a faster shift to e-commerce, operating margins would be driven higher.

Shopify management withdrew guidance recently because of the uncertainty due to the coronavirus crisis. The company is reporting that sales momentum was strong in January and February. The short-term outlook is precarious, but longer term, the e-commerce trend may be accelerated because of this crisis.

## Foolish bottom line

Shopify is in a good position to survive. In fact, this crisis may be the impetus to take the Shopify stock price to the next level more quickly than otherwise.

At this juncture, I would like to remind Foolish investors of our belief in holding great businesses for the long term. While this belief remains intact, short-term stock price movements often create opportunities to create wealth. Therefore, we need to blend this long-term focus with an eye for short-term stock mispricings. Only then can we use both strategies in harmony. Our quest for financial freedom can be fulfilled.

### CATEGORY

1. Coronavirus
2. Investing
3. Tech Stocks

### TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:SHOP (Shopify Inc.)

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