



Warning: If Shopify (TSX:SHOP) Stock Does This, Then History Says it's a Sell

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has been one of the biggest beneficiaries of a COVID-19 world, as thousands of businesses look at selling their wares online for the first time ever. Many recently unemployed folks are also using this opportunity to seize their own [e-commerce](#) dreams.

If you're selling product online, Shopify is the gold standard. The company provides everything from a website template to payment processing. It even has fulfillment centres in major cities to help cut down on shipping times — real estate its sellers can use. Shopify even offers financing to various merchants — cash infusions backed by sales data.

With that much going for it, it's easy to see why Shopify stock has been an investor favourite for years now. We're taught to seek companies with a sustainable competitive advantage, and Shopify has exactly that. There's huge potential for it to raise prices over time, but for now, CEO Tobi Lütke and his team are keeping prices low to encourage growth.

This simple business plan has elevated Shopify stock to the second largest in the entire Toronto Stock Exchange, trailing only the biggest company in Canada, **Royal Bank**. Shopify's market cap is rapidly approaching \$100 billion. Royal Bank has a comfortable lead today — its market cap is more than \$117 billion — the gap is smaller than you'd think. Just one more big move from Shopify, and it could overtake Canada's largest bank and become the biggest company in the country.

Maybe Shopify shareholders shouldn't cheer such a move. If history is any guide, becoming Canada's most valuable stock isn't a great prize.

The top stock jinx?

Since 1999, there have been several stocks that have surged past Royal Bank and become the largest stocks in Canada. And every time, success atop the market was short-lived.

Let's start with Nortel Networks, a company that many veteran Canadian investors know well. It surged past Royal Bank and eventually became the largest company in Canada by a factor of 10. That's right;

it had a market cap of 10 times the next largest stock. Nortel is the whole reason why we have a capped **TSX Composite** Index. By 2001, it had relinquished its “largest company” title back to Royal Bank, and by 2009 the company was bankrupt.

Other companies have surpassed Royal Bank since Nortel was so dominant, including **BlackBerry**, Potash Corporation of Saskatchewan, Encana, and Valeant. BlackBerry is a shell of its former self and has very little smartphone exposure these days. Potash Corporation fell from grace and eventually merged with Agrium to form **Nutrien**. Encana split into two companies before weak commodity prices drove the stock much lower. It has also changed its name to Ovintiv. And Valeant — now called **Bausch Health** — collapsed under a massive debt load and allegations of fraud.

These companies all have one major thing in common, something Shopify stock holders might want to pay attention to. Surpassing Royal Bank was the peak of each company’s success. And it proved a terrible time to buy the stock. In fact, it was a great time to sell.

Will the same thing happen to Shopify stock?

Naysayers argue Shopify stock is different, pointing to things like Lütke’s big ownership position, a passionate group of employees, and the company’s long-term outlook. These are great things Shopify has going for it.

But it’s easy to argue the other top companies listed had plenty going for them, too.

Ultimately, the most important factor for Shopify stock — or any stock, for that matter — is sentiment. As long as investors keep getting excited about the company, its share price will do well. But Shopify is expensive, and it could fall a long way if that sentiment ever changes.

Sentiment is a big reason why those other companies surpassed Royal Bank, and that didn’t end well for any of them. However, it takes just one company to buck a trend. Maybe Shopify is that company.

CATEGORY

1. Investing
2. 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. Tech Stocks

Date

2025/06/30

Date Created

2020/04/26

Author

nelsonpsmith

default watermark

default watermark