



Shopify (TSX:SHOP) Stock: Should You Buy the Dip?

Description

Back in May, I'd discussed whether Fools should adhere to the old investing adage, "[sell in May and go away.](#)" I'd concluded that investors should keep an eye on stocks that had seen their valuations soar to suspect levels up to now. However, it has still been a smart idea to stay in this hot market. Today, I want to discuss the performance of **Shopify** ([TSX:SHOP](#)) ([NYSE:SHOP](#)). The scorching tech stock has been a huge story in 2020, but it has lost some momentum in June.

Why Shopify stock erupted in the spring

Shares of Shopify fell below the \$500 mark during the bout of market volatility in March. However, the stock would storm back in the weeks that followed. Shopify stock reached an all-time high of \$1,206.08 in the final week of May.

The e-commerce giant released its first-quarter 2020 results on May 6. New stores created on its platform increased 62% between March 13, 2020, and April 24, 2020. Shopify has faced challenges due to the COVID-19 pandemic, but the lockdowns have also accelerated the shift to the digital space for many consumers. This is good news for Shopify's merchants.

Total revenue increased 47% year over year to \$470 million. Meanwhile, Gross Merchandise Volume (GMV) climbed 46% to \$17.4 billion. Adjusted gross profit increased 44% to \$263.8 million. Shopify put together a strong quarter, but there are still reasons for concern. This economic crisis has pushed millions out of work in Canada, and consumer spending will inevitably be impacted. Does this mean you should avoid Shopify stock?

Are shares still overvalued?

Shopify stock closed at \$994.70 on June 10. In late April, I'd discussed why Shopify stock was [destined to rise above the \\$1,000 mark](#). Like many top tech stocks in Canada and the United States, investors are willing to overlook the high valuation for the promise of future growth.

The growth of e-commerce has transformed the retail sector in recent years. Digital migration trends are sure to continue throughout the 2020s. Shopify is in a fantastic position to benefit. A recent ResearchAndMarkets report projected that the global digital software market would achieve a CAGR of 12% from 2020 through 2025.

As it stands today, Shopify has not yet reached profitability. This has provided ammunition to short-sellers like Andrew Left. However, so far Shopify stock has easily brushed off this criticism. Should Canadians look to buy the dip in early June?

Should you buy Shopify stock today?

Shopify stock had dropped 3.3% week over week as of close on June 10. Shares last had an RSI of 50, which puts the stock in neutral territory compared to the overbought levels we saw in late May. The company still boasts a fantastic balance sheet and very promising growth potential. However, as I'd discussed in my May article, investors looking for maximum value may want to wait on the sidelines. Shopify is pricey and a breather for the stock is well overdue.

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Date

2025/08/18

Date Created

2020/06/13

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