



## Shopify (TSX:SHOP) Hits \$1,447: Is a New Tech Bubble Here?

### Description

On Monday, **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) shares reached a blistering high of \$1,447, capping a five-year rise that saw the stock jump 4,000% higher than its IPO day closing price. In the past five years, Shopify has unfailingly risen year in and year out — walking off the correction of 2018 and 2020's bear market. As a result of these gains, Shopify is one of the most expensive stocks in the world, trading at *100 times sales*. Yes, you heard that right: 100 times *sales*, not earnings.

That's an unbelievably high valuation. For most stocks, 100 is a pretty high for a P/E ratio. For a tech stock to trade at 100 times a full year's *sales* is almost unheard of ... except when we look at another big event in stock market history: the [dot com bubble](#) of 2000/2001.

That bubble saw the NASDAQ rise 400% in five years, only to fall 78% in the span of two. The index as a whole was a net gainer over that seven-year period, but many individual stocks tanked and never recovered. With Shopify reaching dizzying heights, it's natural to wonder whether a repeat of the early 2000s bubble is coming.

### Signs a new bubble could be forming

The biggest sign that a new tech bubble is forming is the unprecedented momentum in tech stocks. Despite COVID-19 and the lockdowns that have come with it, the NASDAQ has risen dramatically this year. Unlike the S&P 500 and TSX Composite, which are down for the year, the NASDAQ is up 19% year to date. That's a huge gain in *any* year, let alone a year that saw a bear market in stocks more broadly. The price momentum is beginning to look very bubble-ish, but that doesn't necessarily mean we're in one.

### Arguments against a new bubble

Despite the "bubble"-looking gains we've been seeing in tech stocks, there are plenty of reasons to believe we're not in an actual bubble. A major one is valuation. In 2000, the NASDAQ reached a sky-high P/E ratio of 200. That's higher than the P/E ratio Japan's Nikkei reached in 1987! For those who

aren't aware, Japan in the 80s saw one of the biggest stock market bubbles in history, which it *still* hasn't recovered from.

The current NASDAQ Composite P/E ratio is not comparable to 2000. In fact, it's not even close: according to [Guru Focus](#), the index has a 29 P/E as of this writing. That's actually a fairly sober valuation for an index loaded with high-growth tech stocks. It'd be a steep valuation for the TSX, but it's not necessarily overpriced when you look at the kinds of companies listed on the NASDAQ.

## Foolish takeaway

Over the years, SHOP has been one of Canada's best-performing stocks, rising precipitously year in and year out. This has gone on so long now that it's natural to wonder whether the stock is in a bubble. That may be the case. As for tech stocks generally, it looks like a 2000-esque bubble is not a realistic possibility for now.

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### Date

2025/07/08

### Date Created

2020/07/14

### Author

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