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.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing
2. Tech Stocks

Date
2025/09/02
Date Created
2020/07/14
Author
andrewbutton