Shopify (TSX:SHOP) Just Corrected: Should You Buy the Dip or Wait?

Description

Just when you forgot what it was like to have a down day, the S&P 500 fell off a cliff, shedding 3.5% of its value in a single trading session. Too many beginner retail investors were likely having too much fun with the rally (or is it a melt-up?) out of the market's March trough.

When the market melts up in unprecedented fashion, Foolish investors should be worried, as they take a page out of Warren Buffett's playbook by getting fearful at a time when others are greedy.

Tech gets wrecked

With headlines over the second coming of a tech bubble floating around in the mainstream financial media, there's no question that many are concerned that the COVID-19 crisis has caused the first half of the year's biggest tech winners to overshoot their intrinsic value range. The pay-any-price for COVID-19 winners strategy probably enriched many beginner investors.

But for those who got greedy and refused to take profits, Thursday acted as a rude awakening, as euphoria turned into hesitation. Over the coming days and weeks, we could witness hesitation turn to fear and fear turn to panic. It's times like those when it's your opportunity to pounce on stocks that will likely fall drastically to undershoot their intrinsic value ranges.

This piece will have a look at what you should at shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) to determine how you should proceed with the name amid this latest tech wreck.

Two days is all it took for Shopify stock to fall into a correction

The greatest percentage discounts on Thursday were in large-cap tech names like Shopify, which pulled back over 5%. While Shopify may seem like a steal now at over 12% off that of its all-time high levels, I'd urge investors to be patient with the name, as it could have much further to fall.

Although a 10% peak-to-trough decline is the technical definition for a correction, in the case of

Shopify, which saw its stock more than triple out of its March trough, its correction is hardly noticeable (or actionable in my opinion) when you compare the correction to its latest rally.

If you're keen on getting a bit of skin in the game, then sure, Shopify's correction may be worth a nibble. But be aware that Shopify stock has had more than its fair share of bear market moments (+20% decline) in the past. And the odds of another such moment, I believe, are high.

Now, I don't think this is the end as we know it for the growth story that is Shopify. I think this pullback is just another one of many breathers that Shopify stock has had over the past few years. There could be another leg up once this latest round of selling concludes.

In terms of the fundamentals, it's hard to find a dent in Shopify's armour these days. The company is coming off a magnificent blowout quarter, and I have a feeling there will be more to come, as the firm continues riding high on pandemic tailwinds.

Foolish takeaway on Shopify stock

The correction (or is it a market crash?) looks to be solely valuation based and would encourage investors to be ready to start nibbling once the stock falls below the $1,000 mark. If this correction is more technical in nature, we could easily see Shopify shares get cut in half to $700. So, keep your powder dry if you plan to nibble after Shopify's modest correction.

Given the volatility in Shopify, I'd be unsurprised if Shopify falls to $700, only to hit $2,000 at some point over the next 18 months. Understand the downside (and upside) risks and place your bets accordingly.

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