# Why Shopify (TSX:SHOP) Stock Crashed Today

### Description

It was a brutal morning for **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) on Tuesday. Opening down nearly 6% from its Friday closing price, the stock was one of the biggest losers at market open. Shortly after opening at $1,200, SHOP regained some lost ground, rising back to $1,227 as of this writing. Nevertheless, it was a dismal opening for what until recently had been one of the best **TSX** stocks of 2020.

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Not that SHOP isn't *still* one of the best TSX stocks of 2020. Even after today's brutal open, it's still up 131% for the year. Nevertheless, we're seeing Canada's most popular tech stock take a breather today. The question is, *why?*

## Tech stocks had gotten overheated

The big thing you need to know about SHOP's move today is that it isn't happening in isolation. Tech stocks *in general* are crashing today, with the **NASDAQ** down about 2.8% at open.

The reasons for this can ultimately be traced back to the COVID-19 market crash. During the crash, investors pulled out of virtually all stocks, as they were uncertain how the lockdowns would affect business. Afterward, we started to see earnings come out. What they showed was that not all companies had been impacted by the pandemic equally. The pain was mainly felt by airlines, retailers and banks. Tech, on the other hand, continued posting strong year-over-year growth.

Shopify, for example, posted its best earnings in years in the middle of the pandemic. In Q2–which saw mass lockdowns–SHOP grew revenue by 97% year over year and posted positive GAAP earnings. These were both incredible results. Before the pandemic, SHOP had seen revenue growth decelerate and rarely posted GAAP profits. The markets took Q2 as a huge win, sending the stock soaring.

The end result of this was a very expensive stock. By last week, SHOP was trading at more than 70 times sales, 33 times book value, and up to 500 times projected future earnings, which made it one of the most expensive stocks in the world. And other tech stocks got similarly inflated. While tech companies genuinely did avoid the worst of the pandemic, the scramble to buy them led to unrealistic valuations. As a result, a selloff had to come.

## Investors moving into more traditional assets

Another factor driving tech stocks lower is renewed investor interest in traditional industries. There's only so much money to invest, and when investors rush into one sector, it usually results in another sector being sold off.

Today, with the economy recovering, traditional industries are looking better than before. And investors seem to be taking notice. Since March 19, **Air Canada** stock has risen a blistering 49%. That reflects renewed investor optimism that the global economy will get back on track. While Air Canada will likely keep losing money in Q3, its long-term chances of survival seem solid.

Similarly, bank stocks have been rising, after a third quarter that showed unexpected sequential earnings growth. That was due to lower expected loan losses–which in turn suggests improving economic fundamentals.

As lockdowns end and the economy comes back to life, traditional industries are going to look undervalued. That will lead to investors buying the dip, possibly pulling money out of tech stocks to come up with the funds. For Shopify, that could lead to more downward momentum.

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andrewbutton

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