Shopify (TSX:SHOP) Stock Dipped Almost 20%: What Should You Do?

Description

The month of September started with a correction in the stock market. Tech stocks that surged the most during the rally dipped the most in the correction. The poster child of the pandemic, **Shopify** (TSX:SHOP)(NYSE:SHOP), dropped almost 20% to $1,208 in the recent correction. The bulls have been very strong for this stock, with buyers willing to pay a premium of $50-$100 on the current price. Hardly anyone was selling this stock. Suddenly, a large portion of investors are cashing out the profits. What should you do in such times?

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Why do the bulls of Wall Street love Shopify?

As Warren Buffett said, buy when others are fearful. And buy the stock you would want to hold for the next 10 years. Both conditions are true for Shopify. It is a stock that investors have priced for the next 10 years. Back in July, investors went so bullish that they were willing to pay as much as $72 for every dollar of revenue. The bulls rode on the back of positive news that big names like **Walmart** and **Chipotle Mexican Grill** have partnered with Shopify.

Many Wall Street analysts increased their price targets for Shopify. The bullish price target for the stock is $1,400, which represents upside of 16% from the current trading price. The recent correction has brought in many sellers in the market, even though there is no change in the fundamentals or future growth prospects. The stock is still worth holding for the next 10 years.

The recent selling activity has reduced its value to 53 times its sales per share. This valuation might still seem high, but so is the company's growth prospects. Shopify is a high-growth stock, and high valuations are normal for such stocks.

The next argument is that its 53 times price-to-sales (P/S) ratio is way higher than other high-growth e-commerce stocks, like **BigCommerce** (38.2) and **Wix.com** (14.28). But neither of these companies enjoy the market share and do not have the potential to be the next Shopify. Hence, Shopify deserves the premium valuation for its 98% growth in second-quarter sales.

When should you buy Shopify?

Now that we know that Shopify is a keeper, your next question should be, when is the right time to buy the stock? To answer that, I will dive a little into the technicals. Shopify stock has fallen below its 50-day moving average, which means almost two months of gains are wiped out. Moreover, the stock is nearing the oversold category with a Relative Strength Index (RSI) of 40. The last time the technical indicators fell this low was in March.

But one thing that is different from March is the trading volume. In March, Shopify stock's trading volume surged threefold from its average volume. But that's not the case this time. It is trading at the average volume, which means this is not another market crash.

Shopify stock could see a little more correction until the RSI falls between 30 and 35. But after that, the buying activity will return, putting the stock back on the growth path. It is difficult to say when the stock will bottom out. But even if you buy it somewhere close to its bottom price, it is a win.

Investor corner

A price of $1,200 is a good deal for a stock like Shopify. If you have your Tax-Free Savings Account (TFSA) contribution money stuck in some slow-moving stocks that are giving less than 5% annual return, cash that money and buy Shopify now. Or, if you are searching for a good investment for your $6,000 TFSA contribution, Shopify is the stock for you.

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ou can earn around $950 on your $6,000 investment in a year or even earlier.

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Date
2025/07/07
Date Created
2020/09/14
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