



Shopify (TSX:SHOP): Avoid This Top Growth Investing Mistake!

Description

Young investors like millennials should embrace the [volatility storm](#) by scooping up shares of some of Canada's top up-and-coming growth stocks while they're still taking a breather following September's brutal tech wreck. While many of the hottest up-and-coming growth names now sport pie-in-the-sky multiples, I still think some of them are worth nibbling on for the youngsters who are looking to build their wealth over the course of decades and can afford to bear extreme levels of volatility and downside risks.

Don't fear the all-time-high list, especially if you have the ability to stomach the risk!

There are profound rewards that stand to be obtained over the long haul in return for bearing absurd levels of volatility. While many Warren Buffett-style value investors may be reluctant to buy stocks that have recently been on the new all-time-high list, one of the better tips I've received comes courtesy of Fool co-founder David Gardner, who thinks investors shouldn't fear buying names on the 52-week high (or all-time-high) list.

Many top-performing stocks are exhibiting strength for a reason. And although shares may be above and beyond that of their historical average valuation multiples, it's important to evaluate a company based on its growth story to determine if recent bouts of multiple expansion are, in fact, warranted. In some instances, certain growth stocks can compress sales and earnings multiples to a far greater extent than analysts' expectations. And that could provide lift and further multiple expansion to the stocks that most value investors wouldn't even dream of touching with a barge pole.

Shopify continues its ascent

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) is a prime example of a growth stock that continues to defy the laws of gravity and its doubters who slam its nosebleed-level valuation. The Canadian e-commerce success story has a strong growth profile that not only proved its resilience amid this pandemic, but it

also enjoyed a profound acceleration to its business as a result of this horrific crisis.

When shares of Shopify initially tanked back in February and March, the stock was, by most value investors' standards, still expensive with a price-to-sales multiple north of the 20 times mark. I'd urged investors to back up the truck, while shares dipped when they should have rallied, given the vital role Shopify played in helping small- and medium-sized businesses weather the [COVID storm](#).

Sure, the stock was expensive, but it became far more expensive in the following months, as investors recognized the magnitude of the tailwinds behind the name, causing Shopify stock to more than triple in a matter of months — a historic correction to the upside.

Shopify is one of those hyper-growth names that will never be anything short of absurdly expensive. The stock trades at around 60 times sales today. With blowout quarter after blowout quarter, the stock is undoubtedly deserving of a bit of multiple expansion, but just how much remains the million-dollar question.

As one of the pricier names on the TSX Index, the stakes are ridiculously high for new entrants in Shopify stock. While no growth stock can keep up a triple-digit or high double-digit (60-90%) top-line growth rate for extended durations of time, I think the re-invigoration of growth brought forth by the pandemic could last well after the coronavirus does.

Foolish takeaway on Shopify

With sustained profitability looming, there are a lot of things to look forward to with the name, but whether the stock warrants its 60 times sales multiple ultimately depends on whether you think the pandemic will result in a short-lived acceleration to growth or if it's a sustained one that will outlast this horrific socio-economic public health nightmare.

I think the tailwinds aren't going away with the pandemic. Shopify won over a tonne of business amid this crisis, and many new merchants will remain loyal subscribers for life.

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Date

2025/08/22

Date Created

2020/10/08

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