A Santa Claus Rally Is Already Underway in These 2 Growth Stocks

Description

The Santa Claus Rally refers to the stock market's tendency to rise after Christmas Day and into the start of the new year. The Santa Claus Rally is already underway for these two growth stocks. Is it too late to get in?

Shopify stock

Shopify (TSX:SHOP)(NYSE:SHOP) is expected to benefit from e-commerce sales during the holiday season. This week, the growth stock has been breaking out from the sideways channel formed since June.

Even without the optimism from the holiday season, the company has been doing exceptionally well. Helped by the pandemic, the innovative e-commerce company reported revenue growth of more than 96% year over year during the last two quarters, as brick-and-mortar businesses scrambled to accelerate their online selling strategies. This compares to Shopify's roughly 46% growth rate in the prior four quarters.

A Santa Claus Rally can further push the growth stock higher through to the new year. That aside, Shopify is still an excellent core growth holding for aggressive investors. So, it's at least a hold.

It's not the best time to buy Shopify, though. It'd be a safer entry point

- after it experiences a meaningful correction of at least 15%;
- after it experiences a consolidation phase; or
- when it starts breaking out from a consolidation.

Shopify stock is a Canadian success story. It has grown to a market cap of close to US$144 billion in fewer than six years of being listed on the **TSX** and created incredible wealth for loyal shareholders.

Here's a smaller e-commerce business that's sometimes referred to as a young Shopify-like company.

Lightspeed stock

Lightspeed POS's (TSX:LSPD)(NYSE:LSPD) market cap of just over US$6 billion is just a fraction of Shopify's size. This could mean a faster growth rate from an investment perspective.

Investors, who have invested in small- or mid-cap stocks, understand that most of a high-growth investment's compounding happens early on. So, the sooner you buy a small company that you believe has strong growth potential, the better.

That said, high-growth companies like Lightspeed, which are growing revenue rapidly but have no earnings, come with their fair share of volatility. Not every investor has the appetite to stomach it.

During the pandemic crash earlier this year, LSPD stock fell more than two-thirds from peak to trough! However, those who bought and held on since a low of $15 per share would already be sitting on a five-bagger in a matter of months!

Lightspeed is helping small- and medium-sized restaurants and retailers in more than 100 countries with its cloud-based e-commerce platform. In the last reported quarter, Lightspeed experienced high revenue growth of 62% year over year. In the four quarters before that, it enjoyed revenue growth of 50-70%.

The growth stock showed signs of breaking out in early November, rallied, and now appears to be in consolidation mode, potentially before the next leg up.

The Foolish takeaway

For the sake of the health of your portfolio, do not try to profit quickly from a potential Santa Claus Rally. Instead, seek companies that have long-term growth potential.

It's hard to go against Shopify. But between the two, Lightspeed should be a better e-commerce bet simply because it is much smaller — a similar revenue growth will have a bigger impact on LSPD stock than on SHOP stock.

For instance, Shopify stock has been a three-bagger (so far) from the pandemic market crash bottom, while Lightspeed has been a five-bagger.

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:LSPD (Lightspeed Commerce)

4. TSX:SHOP (Shopify Inc.)

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