



Investor Alert: Why Shopify Stock Belongs in a TFSA Only

Description

The Tax-Free Savings Account (TFSA) is a Canadian investor's friend. Being able to put stocks with great growth upside into an account that allows for tax-free capital gains down the road is extremely advantageous from a tax perspective. In this context, it's important to build one's TFSA with a growth mindset.

Accordingly, I'm going to discuss why **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) should only be purchased in a TFSA right now.

Safer, income investments are better suited for an RRSP

Many Canadians might wonder which types of stocks to put in one's Registered Retirement Savings Plan (RRSP) or TFSA. In short, RRSPs ought to be used for safer, longer-term companies one believes will stand the test of time. If these companies provide an attractive yield, all the better. These are stocks one will rely upon for income in retirement. Accordingly, having a value and dividend focus in one's RRSP is important.

Growth investments belong in a TFSA

However, TFSA contributions are better utilized in higher-growth stocks. These companies often don't pay dividends, and the majority of the gains one is likely to receive are on the share price appreciation side. Shopify has proven to be one of the stocks that exemplifies a TFSA holding. This is a stock that has been red hot since its IPO a few years ago.

If you're in it for the very long haul and want exposure to extremely high levels of growth, Shopify is a great pick. This company has increased its year-over-year revenue by approximately 100% in recent years (that's right: doubling every year) and now actually posts a profit. This is one of those "**Amazon-style**" growth companies that investors expect will eventually catch up to earnings. By definition, Shopify investors have to be long term, so a TFSA is a great vehicle to use to wait for growth to continue to materialize.

Diversify your growth in your TFSA

Every investor needs to be aware of the risks associated with any investment. Right now, growth stocks are pricey — I mean, really pricey. As pointed out by fellow Fool contributor Joey Frenette, Shopify's valuation of nearly 60 times sales should bring some hesitation.

That said, as I mentioned before, Shopify does have the potential to grow into a reasonable valuation in the next few years. As long as this stock is held in a well-diversified growth-oriented TFSA, investors are likely to do okay. I would definitely recommend investors consider other high-quality Canadian technology stocks as well to diversify one's growth exposure. Putting too many eggs in any basket, no matter how good this basket has proven to be, is potentially dangerous.

CATEGORY

1. Investing
2. Tech Stocks

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1. Editor's Choice
2. growth
3. Shopify
4. Shopify Stock
5. tech stocks
6. technology
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TICKERS GLOBAL

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2. TSX:SHOP (Shopify Inc.)

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