



Shopify (TSX:SHOP) Stock Drops 12%: Is it Still a Millionaire Maker?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock is a millionaire maker. It is not only making its investors millionaire but also its merchants and partners future millionaires. If you study the [Shopify flywheel](#) concept, you will be amazed at how it promotes entrepreneurship and its potential to scale. The pandemic made the flywheel ride at 80 kilometres per hour, but now the speed is slowing. The important thing is that the flywheel is moving, and Shopify and its partners are growing.

Short-term or long-term bet?

Traders and momentum buyers hopped on when Shopify growth accelerated and dropped off and cashed profit when the speed slowed. The stock rallied 33% two weeks ahead of earnings and corrected 12% to \$1,632 in two weeks after the earnings release. I expect the stock to correct to \$1,400 as more traders drop off and only long journey passengers remain. That is an attractive discount you should grab.

Now, those who invested \$10,000 in Shopify before the earnings made somewhere between \$2,500 and \$3,200 in 15 days. But those who invested \$10,000 in Shopify five years back made \$540,000 and are still making more money.

Now you decide if you want to settle for \$2,500 or wait till it becomes half a million. A \$10,000 investment in Shopify can help you buy a house in five to seven years.

Can Shopify replicate its past growth in the future?

Shopify is a long-term buy. But can it replicate its past five-year growth in the coming five to 10 years? Because the reality is that past performance does not guarantee future returns.

So let's look at Shopify's growth potential. It is promoting entrepreneurship among small and mid-sized merchants by equipping them with the right tools. Everything they need to open an online shop from the capital, payment, shipping, delivery, promotion, to broader outreach is available at one platform.

Moreover, many merchants are getting frustrated with **Amazon's** unethical practices. Amazon has come under fire for misusing the sales data to create cheaper versions of popular products to poach customers of the merchants on its platform. Hence, these merchants are shifting to Shopify as a preferred platform.

Shopify faces strong competition from other merchant-focused e-commerce platforms like **Wix.com** and **BigCommerce**. However, Shopify has leverage over them as it commands an 8.6% share of all retail e-commerce sales in the United States in 2020, only behind Amazon. Shopify has a large market share to tap, new geographies to expand, and innovations to optimize. But trading at 68 times its sales per share, is Shopify stock already priced for 10 years?

Too late to buy Shopify stock?

A few days back, I wrote about Warren Buffett's contrarian investing style. Many a time, contrarian stocks are confused as cheap value stocks. And it's true. Had you taken the Shopify bus when it was trading at \$30 price, you would be a millionaire by now. But it is also true that some contrarian stocks have proved their potential and surged significantly, but are going through a short-term dip.

Buffett accepts both truths. He didn't buy **Apple** ([NASDAQ:AAPL](#)) 20 years back or when iPhone was new. Buffett bought the stock when Apple was already a brand, a market leader. He grabbed the stock when Apple went through a rough patch.

Buffett bought his [first](#) 10 million Apple shares in May 2016. That time, Apple stock fell as it reported its first revenue decline in 13 years because of weakness in China. He later increased his bet on Apple to 245 million shares in 2019. Even at that time, the trade war was at its peak and hampered iPhone sales. He looked past the valuation and focussed on its ability to generate growth in the next 10 years. Today, Apple is **Berkshire Hathaway's** largest holding by value.

Final thoughts

Shopify has tremendous growth potential. It is undergoing a correction, giving you an opportunity to make it the most valued stock of your Tax-Free Savings Account (TFSA) holding five years from now.

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Author

pujatayal

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