Shopify (TSX:SHOP): Should You Keep Buying as Shares Continue Flying?

Description

Undoubtedly, just a handful of sectors seem to be responsible for the broader market's robust rally going into August. On the **TSX Index**, energy, financials, and tech stocks flexed their muscles in an impressive fashion over this past year. Whether that will be the case over the next year will be anyone's guess.

Regardless, contrarian value investors should look to trim overheated stocks within such sectors that may have overextended themselves, as they look to put money to work in some of the cheaper, unappreciated laggards that could evolve to become the new market leaders moving forward.

Nobody wants to trim their winners and add to their losers, especially when it comes to the hot growth stocks with high growth ceilings. If you sold shares of **Shopify** (TSX:SHOP)(NYSE:SHOP) at any point in the past, you'd be kicking yourself (assuming you didn't get back in at cheaper prices), as the firm has found a way to power higher, despite the high bar set in front of it by investors and analysts. But disciplined investors know that it's only prudent to take profits once a stock has surpassed one's projection of its intrinsic value.

Shopify stock: Is it too expensive at nearly $1,900?

As wonderful a business as Shopify is, one must never lose sight of the valuation. At the end of the day, investing is all about getting a little bit (or a lot) more for every dollar you'll invest. Like any piece of merchandise, you need every dollar to go as far as it can.

After you've purchased shares, you must stay on top of a name, revisiting your financial models, as circumstances change. If nothing has changed but the price, you may want to consider buying, as shares fall substantially below your estimate of their intrinsic value (your price target) or trim when shares exceed it.

Undoubtedly, fast-moving companies like Shopify can be tough to evaluate. The company is really expanding its wings into new markets, such as payments, while it continues to go after its target market in the small- and medium-sized business (SMB) space. Moreover, the company has a knack for blowing away earnings results, inspiring analysts and investors to up their price targets. As a result, it can be tough to get back into a name like Shopify after trimming shares.

The Foolish bottom line

While I’m not against just hanging onto shares of a long-term winner like Shopify, investors must not let one’s exposure to the single stock grow in a way such that their portfolio becomes improperly diversified. After doubling up many times over these past few years, those who’ve seen SHOP stock comprise over 20% of their portfolio should think about diversifying into other asset classes.

Moving ahead, there are many risks for high-growth plays like Shopify. Most notably, higher rates and a reopening-drive slowdown could cause shares to sag.

As painful as it is, you should look to trim if shares are priced above your price target, and your exposure has grown too large for your liking. But if you’re not confident that you’ll be able to buy back into shares at lower prices, just holding on and adding to other positions may also be a good option to diversify away from one’s heavily overweighted holdings.

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