



2 TSX Stocks Trading Above \$1,800: Should You Buy?

Description

Does it give you goosebumps when considering buying a stock that is trading above \$1,800? You won't find many shares in this price range because companies generally do a stock split to make their shares affordable. But there are two Canadian stocks in this range: **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and **Constellation Software** ([TSX:CSU](#)).

Things to consider when buying a stock trading above \$1,800

As a new and even intermediate investor, you might have set aside \$6,000-\$10,000 for [investing in stocks](#). Buying two such expensive stocks can take up 40% of your contribution, a huge setback to portfolio diversification. This might get you wondering whether buying such stocks is worth it. Remember, too, that the stock price comes second. The first thing you see in a stock is the company's business and growth prospects.

Shopify

Shopify is the e-commerce platform that works behind the scenes and helps merchants build their online stores customized to their needs. As a customer, you might have shopped from a Shopify-powered store, but you won't know it. Unlike **Amazon**, Shopify gives *merchants* the branding and marketing power. That way, the merchant doesn't have to share the online store with rival merchants.

The pandemic came as a blessing in disguise for Shopify, and it saw more than 95% revenue growth in the four quarters from April 2020 to March 2021. The e-commerce business is volume-based, wherein Shopify earns from the subscription fee and a commission on every transaction. The pandemic saw many big retailers open Shopify stores and brought volume growth with them. The gross transaction volume surged 114%, and subscription revenue surged 70% year over year in the first quarter.

This growth pushed Shopify into profits, with the platform earning \$538.7 million in the first half of 2021. The e-commerce platform's revenue growth is normalizing, with [second-quarter](#) revenue up 57%. The e-commerce growth story is now entering the stability phase.

Constellation Software

Constellation Software is like a private equity firm of vertical-specific software stocks. It acquires small software companies that cater to a niche market with little competition. It looks for companies with sticky products and stable cash flows. Constellation allows these companies to continue working with their brand name. It provides management and financial support needed to accelerate growth.

Some acquisitions are fruitful while others fail. But overall, these acquisitions have generated positive cash flows and helped it grow revenue at an average annual rate of 13-14% in the last five years, [pandemic](#) or no pandemic.

Why invest in expensive stocks?

If you look at the dollar earnings, the two stocks earned an investment income of \$900 year to date on a little over \$3,000 investment at the start of the year. This comes to a 29% return. Always look at a stock return as a percentage and not as a dollar amount because many shares under \$100 returned more than 30% returns. *Then why not invest in those stocks instead of Shopify and Constellation, you ask?* The answer is the risk involved.

Shopify and Constellation are large and mid-cap companies that are at the peak of their business. Being in the software space, their solutions are becoming sticky and are generating profits. Hence, the risk is comparatively lower than small tech companies looking to capture market share. For a new investor, parking your funds in just two stocks could be risky.

But you can still enjoy the benefit of these large-cap growth stocks by investing in the **iShares S&P/TSX Capped Information Technology Index ETF** ([TSX:XIT](#)). The ETF has over 45% of its holdings in the above two stocks, giving you the same benefit of owning these stocks in a \$10,000 portfolio. With this ETF, you can get the benefit of price movement of the two stocks for \$55 per unit. The ETF surged 25%, coming close to the 29% surge of Shopify and Constellation combined.

CATEGORY

1. Investing
2. Personal Finance
3. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CSU (Constellation Software Inc.)
3. TSX:SHOP (Shopify Inc.)
4. TSX:XIT (iShares S&P/TSX Capped Information Technology Index ETF)

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Author

pujatayal

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