



Is Now the Time to Be Cautious With Shopify Stock?

Description

E-commerce giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) is, hands-down, one of the favourite [growth stocks](#) for investors. With solid financials and strong secular catalysts, this company continues to show dominance in the market. Indeed, Shopify stock continues to remain a key component of so many investor portfolios either directly or through market cap weighted index funds (Shopify takes top spot in Canada in this regard currently).

Accordingly, Shopify's size has been one of its best factors of late. This has propelled investors to own Shopify stock in any index fund.

However, any time a company grows this big, this fast, concerns are likely to rise. Such is the case with Shopify stock.

Is now the time to trim or wait? Let's discuss.

Slowing growth may be a concern

Chief among the concerns of many bears in Shopify is the company's growth rate moving forward. Indeed, Shopify's [recent growth rates](#) have been stellar. As a result of the pandemic, companies were forced to go online. As it happens, Shopify's e-commerce platform is one of the leading ways companies could transition to an online model (in whole or in part).

That said, this growth rate is likely to slow over time. A recent **CIBC** report stated that the web traffic of Shopify and its e-commerce peers is likely to see a slowdown, as fully vaccinated Canadians are stepping outdoors again. More malls open means more potential traffic driven away from online shoppers.

Shopify's year-over-year web traffic growth in the third quarter was about 10% in comparison to its first-quarter growth of 68%. However, though overall web traffic is down, Shopify continues to surpass its rivals in the third quarter in the consumer discretionary sector. This is because cosmetics, home furnishings, and fashion segments witnessed substantial sales.

High rates of vaccination in the U.S. and Canada are accountable for this digital slowdown. Due to vaccinations, consumers are returning to the same traditional retailers they shunned during the pandemic. These signs of transition in consumer habits were evident in the quarterly reports of some big U.S. retailers.

Having mentioned that, CIBC pointed out that these large-sized retailers are witnessing positive developments in between back-to-school shopping. A boost from these (back-to-school and back-to-college for some regions) could be critical in lifting the Q3 sales volumes of retailers.

Finding growth has been relatively hard for some Canadian e-commerce platforms due to the boom in 2020. However, Shopify is still up by greater than 38% year to date.

Bottom line

Shopify stock remains a growth story investors want to believe will go on forever. At some point, growth will likely slow. And perhaps this is already baked into Shopify's stock price today.

However, overexuberant investors expecting triple-digit growth rates to materialize continuously are likely dreaming. Accordingly, I think Shopify stock is one investors should be taking a longer-term view with.

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1. Investing
2. Tech Stocks

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