



Why Did Shopify (TSX:SHOP) Stock Rise 15% in 1 Week?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock surged 15% in the last five days, as Black Friday and Cyber Monday (BFCM) deals start swarming in. Most retailers make a significant portion of their annual revenue on these two days. Last [year](#), Shopify's store owners saw BFCM sales surge 76% to a whopping US\$5.1 billion. Last year was unique, as the traffic of brick-and-mortar stores moved online. But this is no excuse that Shopify can't beat this record.

Shopify stock rides the Santa Claus rally

This is a peak season for all retailers, online and offline, as most customers delay their purchases for BFCM discount sales. Shopify gives retailers tips to boost their sales during this season. The more sales online store owners make, the higher transaction volume Shopify gets. The e-commerce giant benefits from higher transaction-based revenue during this time of the year.

This whole festive season is when the Santa Claus rally happens. Stores are filled with gift items, and everyone is on a shopping spree.

Shopify stock rides the Santa Claus rally from October onwards. The stock maintained this growth trend for the last two years. It surged 50% between October 2020 and January 2021 and 46% a year before that (October 2019 to January 2020). The stock has already surged 27% in the 2021-22 Santa Claus rally and could rise another 20% till January 2022.

But beyond January 2022, the stock won't be able to sustain its peak. This is because the first quarter is seasonally weak for the retail sector. Consumers have exhausted their shopping budget and are preparing for taxes. The stock price figures tell the story.

A look back at Shopify's stock price momentum

After surging 50% in the 2020-21 Santa Claus rally, the stock started descending in mid-February and fell 27% by March. It witnessed similar growth and trough in the 2019-20 Santa Claus rally. However,

the pandemic pushed the stock to new highs in April and May 2020. But that is a one-off event. Before the pandemic, Shopify stock surged around 15-20% in the Santa Claus rally and slowed in the first quarter.

I expect the stock to repeat the two-year pandemic trend and surge as high as \$2,500 — 13% upside from the current trading price. All this boils down to one question.

Should you buy the stock at \$2,202?

Shopify stock is trading at its all-time high. Even for an investor who is a risk-taker and eyes aggressive [growth stocks](#), this is not a price to buy a seasonal stock. The stock is already overbought, with a Relative Strength Index of 71. A 13% upside is not worth it after taking into consideration commission, transaction fees, and inflation. The right time to buy Shopify stock was in the September dip. Now, the next buy cycle will likely come in [March](#).

If you already own Shopify stock, keep holding it till early January 2022 and book some profit by selling a portion of your shares, around 20% off your Shopify holdings, when the stock reaches \$2,500. After this year, I expect Shopify's stock price growth to normalize as the pandemic catalyst fades. A partial profit booking will help you get the best of the pandemic catalyst.

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