



## Why Shopify (TSX:SHOP) Lost 5.2% Yesterday!

### Description

**Shopify's** ([TSX:SHOP](#))([NYSE:SHOP](#)) epic bull run was momentarily disrupted yesterday. Shopify stock fell 5.2% over the course of the day, dragged down by the sudden shift in momentum for tech stocks across the world.

What's happening, and is this a minor blip or a long-term trend? Here's what investors need to know.

### Tech stock correction

2021 hasn't been a great year for most tech stocks. Several American stocks have lost well over 50% of their value year to date. Even high-flying Canadian tech companies like **WELL Health Technologies** have had a rocky run this year. WELL Health stock is down 22.8% year to date and was down another 3.3% yesterday.

Why are tech companies nosediving? Well, it could be that some of the factors that helped these stocks lift off last year have reversed. The pandemic is ending, while investors expect interest rates to rise sharply higher in the year ahead. That means unprofitable growth stocks have a lower value and higher risk profile going into 2022.

Nevertheless, Shopify, Canada's largest tech company, has avoided this sudden shift in sentiment. The stock is up 45% year to date, bucking the trend. In fact, Shopify stock reached an all-time high just a few days ago. If you zoom out, yesterday's 5% correction is barely noticeable on Shopify stock's long-term price chart.

That being said, investors should be cautious going forward.

### Shopify stock valuation

As mentioned before, Shopify stock has avoided the tech sector's recent downturn. The stock is still flying high. But investors must wonder if this outperformance can be sustained.

After all, if inflation is rising, consumers might have less money to spend on non-essential items sold through Shopify merchants. That's only one of the hurdles the platform faces in the near term.

Mounting supply chain issues are another hurdle for Shopify's growth. The global shipping industry has already been under pressure. Canada's west coast now faces magnified supply chain problems due to the floods. All this is culminating during the [Christmas shopping season](#), which is pivotal for Shopify's merchants.

Shopify stock could have sailed past these problems if it were undervalued, but that's clearly not the case. Shopify stock is trading at a price-to-sales ratio of 50. That ratio would be appropriate if Shopify were doubling sales every year, but that seems unlikely going forward.

In short, investors should be cautious about this stock's elevated levels. This might be a good opportunity to take some profits. If Shopify joins the rest of the tech sector's downtrend, the impact could be painful for shareholders.

## Bottom line

Shopify stock was down 5% yesterday but is up 45% year to date. That's despite the fact that the rest of the tech sector is struggling. However, this outperformance could be short lived if supply chain issues hamper Shopify's growth in the near term. Keep an eye on the Christmas shopping season.

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