



Shopify Stock in Turmoil: Should You Buy the Dip or Bail Out?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock was in a world of pain this past week, with shares nosediving over 26% in just two sessions of trade. Undoubtedly, Shopify could not avoid the pulls of gravity forever. The impressive growth stock continued pole-vaulting over expectations, but eventually, the firm ran itself off the growth treadmill. Indeed, it doesn't matter what kind of firm is running on the said treadmill; if it keeps increasing the speed, the harder it will be to keep pace and avoid falling off in a violent way.

Undoubtedly, Shopify stock has been hit hard, not only through its own doing, but via broader market trends. With the growth sell-off taking it to the next level on Thursday, and the **Nasdaq 100** nosediving yet again to approach its January 2022 lows, many new investors are likely rattled, wondering if they should cut their losses here.

Shopify stock: One of many growth names nosediving fast

Personally, I do think there's value out there, but one needs to be selective. Undoubtedly, the high-growth space is in free-fall mode right now and may not be right for everyone. You can't expect to catch a falling knife without at least a bit of pain. To young, long-term thinkers, catching such knives may be worthwhile. But for everyone else, there are better opportunities out there, specifically in the value realm.

Now, back to Shopify stock. It's back below \$850 per share. While the company has been through more than its fair share of drawdowns in excess of 50% in the past, there are some reasons to believe that this time may be different. The valuation got out of hand, and with the upward pressure on rates that will likely persist for another few years, investors really need to ask themselves what price they'd be willing to pay if, in fact, Shopify's growth has peaked, with macro conditions beginning to show signs of normalization.

Shopify stock: It's tough to value such a growth stock!

If you're having difficulty [valuing](#) Shopify stock, do know that you're not alone. High-growth companies are, by nature, tougher to evaluate. Why? You need to create a growth story and look years into the future. With so much future growth priced in, we need to ensure we're not overpaying for many years worth of growth right off the bat. In the event of a valuation reset, we could get hurt and struggle to recover.

Yes, SHOP stock has bounced back from prior plunges. But is this time different? It's really hard to tell, especially given that exogenous and idiosyncratic weakness could be at play. After a more than 10% drop on Thursday's session, I still do not see Shopify stock as a name that'd appease the value crowd. Yes, the stock is down big-time. But the shares still go for 19.8 times sales. That's way too expensive in my book. Shopify stock could easily get cut in half again and still not be a value name from a price-to-sales (P/S) perspective.

Bottom line on SHOP stock

It's unfortunate that many Shopify dip-buyers have been hit so hard of late, with analysts eager to lower their price targets after the fact. This shows the dangers of following price targets blindly without putting in your own research.

As Shopify stock [continues its fall](#), I'd look for the \$700 mark before even considering initiating a position. Shopify may be a lot cheaper than it was during its peak. But do expect a barrage of downgrades to ensue. For that reason, I would prefer to wait for the downside momentum to subside and the dust to settle.

Indeed, SHOP stock may have given the impression it was a safe play here to stay when it became Canada's largest company. Oh, how the tables have turned. With the risk-off sentiment in the air, I'm not sure just how much further the stock could fall. If weakness prevails, the bottom could be a long way off.

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