



Shopify Stock Hasn't Been This “Cheap” in a Long Time!

Description

The TSX Index is chock-full of risky growth stocks that have been [clobbered](#) amid the recent wave of volatility. The S&P 500 is in a correction, and the Nasdaq 100 could find itself flirting with a bear market if the negative momentum continues. Still, the TSX Index is barely off its all-time high! Similarly, Warren Buffett's **Berkshire Hathaway** is getting the last laugh, with the curtain going out on the speculative frenzy that Buffett's right-hand man Charlie Munger had warned us of previously.

The real question is whether growth stocks are finally worth picking up here or if there's more pain ahead for the many unprofitable growth stocks that are lacking in P/E ratios. Given the divorce between [high-multiple](#) stocks and the rest of this market, I do not view the recent selloff as a moment of severe market inefficiency. That said, I think that some risky growth stocks have been unfairly dragged down — most notably, profitable tech stocks and those that have fallen too hard, too fast due to a lack of understanding of their growth stories.

Growth stocks are hard to own: Young investors should consider browsing through the harder-hit ones

Growth stories still matter — just not as much if profits don't lie in the future. Indeed, looking into the future is hard. And you'll need to look way into the future to evaluate any given growth stock. The higher the multiple, the more you'll risk paying up for many years' worth of growth. That's why I'm staying comfortably on the sidelines, as most names with zero profits implode. Could it be they're unjustly punished? Sure, but unless you're confident in your ability to value them, I'd steer clear, as they're likely to continue free falling so as long as rates rise in accordance with the schedule that investors are currently pricing in.

Personally, there are nosediving growth stocks that I can't value accurately. They may be undervalued, or they may have another 50% plunge in store. It's hard to tell if there are no earnings to get behind with rates that could rise much quicker than some expect. However, there are other names that may have overswung to the downside because of the nature of their industries or a lack of understanding about the road ahead.

Shopify stock: Down 65% and counting

Consider **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), an e-commerce darling that's fallen so hard and far from grace that it's now down over 65% from its all-time high of just over \$2,100 per share. Today, the stock sits at \$764 and change after getting cut in half year to date. Eventually, the pain will end, but in the meantime, investors are more than willing to sell and ask questions later.

Despite the negative momentum, I think the stock is starting to enter oversold territory. Shares are just 8% above where they were before the pandemic crash struck. Given the profound pandemic tailwinds that propelled Shopify higher, I'd argue that the implosion doesn't make as much sense. Yes, it was a temporary tailwind, but it's one that could push the innovation over at the firm many years into the future.

While I do expect SHOP stock to continue tumbling alongside high-multiple growth, I think it makes sense to start nibbling. Just don't get too aggressive, too fast, because the growth story (it's a very good one) now matters far less than the Fed's tone. If you're a long-term investor willing to hold for at least five years, I view SHOP stock as an intriguing option. Just be ready to average down because it's unlikely to have bottomed quite yet.

At 16.4 times sales, Shopify stock hasn't been this "cheap" in a very long time. Still, those looking for the 10 times sales mark may get what they want if they're patient. A double-digit price-to-sales multiple is hardly a bargain. But versus its growth in a rising-rate environment? I'd argue that SHOP stock is, in fact, starting to get "cheap" relative to its long-term outlook.

CATEGORY

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2. Tech Stocks

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joefrenette

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