



Shopify (TSX:SHOP) Stock Falls Below \$800: Don't Buy This Dip Yet

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has lost 63% value from its November 2019 high and has breached the \$800 support. A majority of this decline came before the war broke out. There is more downside as several macro, company-specific, and market factors are going against Shopify's business model.

Shopify stock's rally to \$2,200

Shopify is a technology company that facilitates retail commerce on an electronic platform, which means it helps retailers reach out to consumers. It is a facilitator that benefits from volume transactions happening on its platform. Hence, its business flourishes in an economy where consumer spending grows.

The pandemic was a medical crisis but boosted consumer spending, driving Shopify's 2020 revenue 96%. In addition, the government released trillions of dollars in the stimulus package, some of which consumers invested in Shopify, thereby inflating its stock price from \$590 to \$2,200 between March 2020 and November 2021.

Shopify stock's dip to \$800

While the stimulus package provided relief during the pandemic, it created another challenge of rising [inflation](#). This impacted consumer spending and Shopify's 2021 revenue growth slowed to 47%. However, Shopify dip came when talks surfaced to end the stimulus package and increase interest rates to control inflation.

Like what billionaire investor George Soros [said](#), the tech stock bubble will burst when free money from stimulus stops. Shopify stock fell from \$2,200 to about \$800 between November 2021 and February.

Canada's inflation of 5.1% is at a 30-year high because of rising energy prices. This inflation is eroding the value of cash and also reducing the real return on investments. The central bank has increased the

interest rate from 0.25% to 0.5%, thereby making borrowing expensive. As the value of cash erodes, people are removing their money from risky assets and investing in safer assets. The market has already discounted Shopify for the above scenario.

More dip is yet to come

But there are developments in the global markets. The outbreak of war between Russia and Ukraine and the United States SWIFT sanctions on Russia have altered international commerce.

The war has created uncertainty around the supply of oil, natural gas, and various other metals like aluminum. Europe is already under an energy crisis. If Russia retaliates by cutting gas supply to Europe, the United States and Canada will try to fill the gap, pushing energy prices to new highs. Inflation could skyrocket not only in Europe but also in Canada and the United States.

The rising energy prices will force some industries to remain closed, creating supply shortages in other industries. The increasing inflation will shift consumers spending to energy and food, leaving them with little income for discretionary shopping. The war would impact economic growth and all industries depending on it.

As the war escalates, the U.S. government will make tough decisions to protect the economy. As Shopify accounts for 10.3% of the U.S. e-commerce retail sales, its stock could face the heat. Since the war broke on February 24, Shopify stock has dipped 10%. The stock could see more dip in March as the tensions rise.

Should you buy the dip?

[Warren Buffett](#) has said in many quotes that a market downturn is an opportunity to buy robins at a cheap price. But it is important to find these robins. Shopify spent a large sum on replicating **Amazon's** model of fulfillment network of various warehouses. But this didn't bode well with Shopify's asset-light model, and it scrapped this plan. It moved back to reporting net losses in the fourth quarter of 2021 (US\$371.3 million) after six quarters of pandemic-induced profits.

Shopify has over US\$8 billion in liquidity to help it survive the war and grow in the long term. But more downturn is likely in the stock. It is not just Shopify, but most [tech stocks](#) have taken a fall. The retail industry and tech industry heavily depend on the economic growth. Hence, I suggest a wait-and-watch approach for Shopify, as the stock could fall another 20-30% in March.

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