Is Shopify Stock Overdue for a Big Correction to the Upside?

Description

We've all heard about market corrections, which are a 10% drop from peak to trough. The **S&P 500** is in the midst of one right now, and it may or may not worsen into a bear market (20% drop). In any case, it's worth looking at individual names, rather than the broader indexes. Many names are down well over 10%. In fact, if you're a stock picker, odds are, many names in your portfolio are already in a bear market. Some may be down 30%. If you're a young investor inclined to chase hot stocks, you could have stocks that are down over 50% or even 60% from their highs.

Indeed, once stocks add to their percentage losses in excess of 60%, it becomes oh so hard to bounce back. Undoubtedly, **Shopify** (TSX:SHOP)(NYSE:SHOP) stock, which lost over two-thirds of its value, is unlikely to recover such losses in an abrupt fashion. Although possible, the stock is most likely to take five years at minimum to recover. And along the way, even more pain will have to be suffered by investors. Undoubtedly, Shopify stock probably should have never traded at north of 50 times sales to begin with amid its euphoric rise on the back of COVID tailwinds. Eventually, dip buyers will run out of dry powder, as they discover dip-buying is no longer a short-term strategy of obtaining a big bounce back.

Sadly, many beginners have never been in a lengthy bear market. The 2020 stock market crash saw a V-shaped recovery. This market pullback may have more of a U-shaped recovery or even an L-shaped recovery if worse comes to worst.

Correction to the upside? Look to wonderful companies that took an unfair hit to the chin

I have no idea what shape the recovery will be from this correction or crash. Regardless, I do think that there are individual names that stock pickers should pounce on, as they're oversold and likely overdue for a correction to the upside, regardless of what the broader market's next move will be. Indeed, quarterly beats and raises have not had the same effect as they did earlier last year. The risk-off mentality has set in. When will it end? Nobody knows. But at the end of the day, undervalued stocks with margins of safety remain key to outperforming in what could be the worst year for markets in a long time. 2022 may be a red year, but after a strong 2021, it’s not a big deal or cause for concern, as long as you stay diversified with a focus on valuation over the attractiveness of “unprofitable growth stories.”

Shopify is a stock that looks overdue for a big bounce. Although dip-buyers have been punished severely thus far, I do think that over the next five years that today’s prices are pretty reasonable. What’s changed at Shopify? COVID tailwinds are fading, but the firm is hard at work on initiatives that could bolster growth moving forward. Simply put, Shopify’s growth is nowhere near over. Further, it could have the opportunity to beef up its margins as it looks to expand into higher-margin verticals like payments.

Shopify stock’s recent stumbles are not indicative of a weaker narrative

Though Shopify stock stumbled in its third quarter, with a modest beat in the fourth, I don’t think much has changed about the long-term fundamentals. It’s still the wonderful growth stock many were fine with paying 40-50 times sales for. Although higher rates will hurt SHOP stock’s value, I still think the current 16 times sales multiple is enticing. Shopify is a growth stock, but it’s a high-quality growth stock that I believe could stage a remarkable recovery whenever this sell-off concludes. Now, be ready for the sell-off to drag for another several months, if not the full year. Bear markets tend to be measured in months, not weeks. So, be ready to average down in a name like Shopify as it looks to plunge to depths not seen since the pre-pandemic years.

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joefrenette