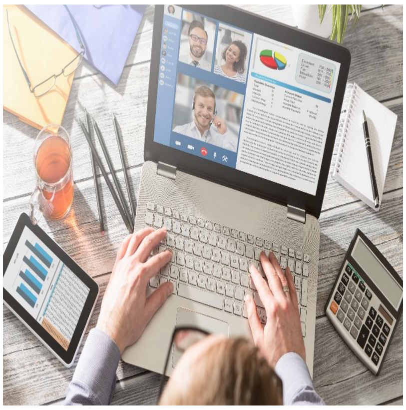

The Case for Buying the Dip in High-Multiple Stocks Like Shopify

Description

The stock market posted two straight days of big gains following a rather turbulent start to the year. While it's still hard to say whether or not the bottom has been put it, I think investors who've been pausing their buying activity should look to the many misunderstood bargains that are now present and buyable right here. Like it or not, there's a risk of missing out on an upside rally if this correction is, in fact, concluded.

That said, nobody knows if this recent rally is just another head fake. We've had a few before in 2022. Bear markets tend to see many of them, and they are opportunities to lighten up on risk if you find your portfolio is not sufficiently diversified or if you have no cash on the sidelines to take advantage of other opportunities out there.

Cash is not a great asset to hold. Not with inflation surging above the 5% mark. Interest rates could cause it to peak in the latter half of the year. But continuing to hoard it will not help you build wealth this year. Remember, real returns are on an after-inflation basis. And you really do need to embrace volatility in the broader equity markets if you're going to finish this year ahead. The good news is that you don't need the broader **S&P 500** to power higher to score a solid return.

The **TSX Index** has held steady, and it could beat the U.S. indexes this year. For Canadians, it's been all about energy and financials. With the recent blow-off top in oil, energy stocks could be in a tough spot, as investors take profits.

That's why I strongly urged investors to take at least a bit of profit off the table the moment oil prices broke the US$100 mark for the first time in years. If they rode the energy rally higher, I saw it as only prudent to at least start thinking about taking profits off the table. Currently, energy stocks seem fair-valued at best. Indeed, it's hard to project where commodities will head over the near term. That's why I view energy stocks as more of a diversifier that one should add to on dips (think in the early innings of 2020) or lighten up on pops (last week).

Time to go 'SHOP'ing for growth stocks?

By not timing moves and reacting with a contrarian mindset, you can really surprise yourself on the returns front. Moving ahead, TFSA investors should stay diversified to avoid the pitfalls lurking in various sectors. First, tech took a hit. Next is likely to be the commodity space. That's why I'd much rather look to beaten-up names like **Shopify** (TSX:SHOP)(NYSE:SHOP) while they're off over 60% from their highs. While I'm not against owning energy or fertilizer stocks here, I do think that the risk/reward isn't the best it's been in recent years.

So, does that mean it's a green light to scavenge the tech wreckage? Probably not. Volatility could persist, and Shopify stock could easily get cut in half again before it bottoms. If you've got plenty of cash to double down on such dips, though, and you're a believer in CEO Tobi Lütke, SHOP does look intriguing here. Do your homework and understand the headwinds, then have a game plan for catching the falling knife. Dollar-cost averaging (DCA) may be the way to go if you expect more pain ahead.

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