Shopify Stock: Can it Double in 3 Years?

Description

Many of the biggest winners of 2020 and 2021 are back on the retreat. They went from studs to duds, and all it took was a rate hike, with expectations for many, many more over the coming 18 months. It's not an ideal situation for the beginner investors who chased momentum, thinking that any price was suitable to pay for next-level, game-changing growth.

Innovation should come at a premium, given its disruptive potential. Undoubtedly, I do believe that well-run firms leveraging technology can change the world and enrich early investors.

Still, it's tough for most to tell the difference between such game-changing firms and those that may not be around in 10 or 20 years. Further, it's hard to tell the future. Nobody knows when the so-called " metaverse" will take off or when autonomous cars will hit the roads. Nobody knows when flying cars will take off or when we'll see moon tours or a Mars landing.

The dangers of betting on white-hot trendy stocks

That's why it's so difficult to invest in stocks based on trends alone. Indeed, a promising forward-looking trend may be a reason to give a particular area of the market a look, but buying the hottest stock to play a trend with zero thought for valuation is a mistake.

Remember, it's hard to pick the biggest winners of a trend in the early stages. That's why trendy momentum investments can be dangerous to those beginners who have no idea how to put in the homework.

Just because there's a growing TAM (total addressable market) does not mean a stock is a good investment! Price always matters, especially now that rates are rising and the costs of borrowing are moving higher. Just how high? Enough to take a real jolt out of the growth darlings that only traded on price-to-revenue multiples!

How much punishment has already been dealt?

With so much damage dealt to the speculative tech plays, it's quite possible that many are ready to skate out of the penalty box. Many have served their time. Others have served too much time. But which ones are deserving of a ricochet? And which could have more pain ahead?

It's a tough question to answer, but a thorough evaluation of a company's calibre of management is a fine place to start. Further, the quality of the product and its sales growth is another area to check out. Will a recession cause substantial growth decay? Or is a management team able to keep growth alive through tough times by expanding into market verticals and defending its slice of economic profits?

Shopify stock: a potential double in three or five years?

To me, **Shopify** (TSX:SHOP)(NYSE:SHOP) stock checks all the boxes of a battered growth stock that could rebound back to new highs within the next five years. It's a wonderful company, with a stellar product and one of the best management teams in Canadian tech, period. With continued sales growth and a push into new areas such as payments, I believe Shopify is not one of the names that will crumble and stay at these depths forever.

Still, that doesn't mean Shopify will not be in for more pain if worse comes to worst. A recession would take a bit of snap out of the firm's jab. But any such further weakness ought to be viewed as an opportunity to be relished by long-term investors, rather than a sign it's time to head to the exits alongside the herd!

At the end of the day, Shopify remains expensive. Cheaper than last quarter? Definitely, but as cheap as it could be given a bear-case scenario? Probably not. In any case, be cautious and nibble into the name over time if volatility has you feeling uneasy!

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Date
2025/09/06
Date Created
2022/04/14
Author
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