Shopify Stock's Turnaround Could Be Fierce

Description

Growth stocks have been so heavily out of favour over the past six months that it's becoming ridiculous. Sure, rates have only one way to go from here. Higher, perhaps much higher, as the Bank of Canada gets serious about fighting off high levels of inflation.

As you're probably well aware by now, higher rates are terrible for growth companies that don't expect to make a sustained move into profits any time over the near future. The further in the future profits lie, the greater the damage done to the share price. This distaste for growth has caused a rotation into the less-exciting value corners of the stock market.

With utility and other defensive dividend stocks being bid up and mostly avoiding the brunt of the damage in recent quarters. Now, defensive plays are still great for your TFSA, especially if you're not in the mood for more downside risk in the second half of 2022.

That said, we'll eventually reach a point where value stocks have multiples that are in line with growth stocks. Heck, battered growth may actually be cheaper than the sought-after value plays that promise safety from the coming recessionary hailstorm.

Eventually, growth stocks will get cheaper than value stocks

Though young investors should take risks, it may be too soon to back up the truck on a stock that's shed 30%, 50%, or even 70% of its value from peak to trough.

Remember, value does not mean how much a stock has fallen off its peak or how sluggish shares have been over some arbitrary timespan. At the end of the day, value is about getting a little something for free with every investment dollar. While a substantial drawdown in share price may suggest value to be had, it's not guaranteed, especially with bubble stocks that naturally boom and bust.

In this piece, we'll check out one of the best growth stocks worthy of a long-term-focused TFSA fund.

Consider **Shopify** (TSX:SHOP)(NYSE:SHOP), a Canadian growth stock that strikes me as an intriguing option to consider after the market correction.

Shopify stock

Shopify is the e-commerce darling that's fallen from the top of the Canadian market. While it may not become Canada's most valuable company at any point over the next few years, I still think that the punished growth firm will find its feet again, rewarding contrarians in the process.

What makes Shopify stock a tough hold is that it's difficult to value at a time like this. Not only are rates headed much higher from here, negatively affecting the firm's future earnings, but it also has to grapple with an economic slowdown (bad for retailers) and rising competition.

Tobias Lütke faces extreme challenges, and I have no idea if he'll be up to the task. After losing more than 82% of its value from peak to trough, shares of Shopify seem like a deep-value play. However, it's still a riskier bet that could get a lot cheaper. For that reason, investors should be cautious and average into a position, even if they believe in management and their ability to ride out the worst economic storm in a while.

I have no idea when Shopify will bottom. It will probably be when the rest of the market does. However, when it does, its turnaround is likely to be fierce. That's why those keen on the name shouldn't wait for the bottom, as it'll come and go before you have a chance to even think about hitting the buy button.

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