Canadians: Shopify (TSX:SHOP) Stock Looks Like a Buy as its Rally Reverses

Description

It's frustrating to see the return of negative momentum, especially after the past few weeks of impressive gains we've had! With the markets up so much since June, a pullback was inevitable. I'd argue that the Fed-induced slide in markets has me more bullish. No longer are investors preparing for rate cuts to follow the hikes to come. Those dovish hopes have died down. But that's exactly why I'm more upbeat on markets, as investor sentiment takes a bit of a turn.

Markets tend to overshoot to the upside and downside. Over the coming weeks, there's a real chance that the slew of bargains that exist today could stand to become even better. In any case, investors should resist the urge to fight the Fed. Instead, they should return to the basics and buy shares of wonderful companies while they're out of favour.

Eventually, the relief rally will take hold. But there could be a bit of pain to put up with in the nearer term. At this juncture, I'm a fan of lowly correlated companies, especially those that stand to hold their own once evidence of a recession mounts.

Shopify: A fallen e-commerce king that's bettering itself

With growth and tech taking double damage once again, I'd look to average into the quality ones like **Shopify** (TSX:SHOP)(NYSE:SHOP), even if it seems like it's hopeless to bet against such a hawkish Fed. Shopify has numerous macro headwinds and competitive pressures to grapple with. However, it's also at the mercy of rates on the 10-year note right now.

It's the same story, as the selloff that plagued us in the first half. Expensive growth stocks that don't expect to make a huge swing into profitability anytime soon will face amplified pressure. Though Shopify stock could have further room to the downside as this growth rebound falters, I'd not be against initiating a small position at around 8.2 times price-to-sales (P/S) ratio.

Shopify isn't nearly as pricy as it used to be. What's changed in the past year? Shopify fell short of earnings estimates three out of the last four quarters.

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Revenue has slowed its pace, and there's concern following Shopify's massive layoff of 1,000 people. Though the layoff was one of the biggest in Canada, it's still worth noting that the firm still has more workers than just over three years ago. In terms of innovation, Shopify is not slowing down. With such a low bar set ahead of future quarters, the odds of a big beat seem higher in my view.

Shopify: Doing what it can to adapt

I've remarked on Shopify's acquisition spree in a prior piece. I don't think it's done yet, as it looks to the rubble to find opportunities to pay three quarters to get a dollar. Sure, it seems like Shopify is struggling right now. The quarters certainly stink. But the perfect mix of mergers and acquisitions and prudent reinvestment are key to moving out of a looming recession in better shape.

For that reason, I stand by Shopify stock amid unprecedented selling pressure. Eventually, rate hikes will stop, and growth can find its footing again. Until then, I think it's time to accumulate growth darlings that will not only make it through the headwinds; they'll better themselves.

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