TFSA Investors: Got $6,000? Power Up Your Portfolio With Shares of Shopify (TSX:SHOP)

Description

September tends to be a scarier month for investors. This year, the month is dreaded, with the June-August rally starting to fade, with the S&P 500 now down nearly 7% from its recent peak. It's been a quick partial correction. But after such a sudden move off those June lows, such a pullback should not come as a shocker too investors. With wishful thinking taken out of the market averages, the recent correction seems more than buyable for those who missed the run-up off the June lows.

While the bearish pundits have returned in full force, with expectations for a re-visitation of the lows, I'd argue that the pullback makes this relief rally more sustainable over the medium term. Remember, stocks overshoot in both directions, making corrections (to the upside and downside) only part of a healthy market.

While there's no telling what will be in store in September, the only thing investors should bet on is that there will be ample volatility, as the Fed and Bank of Canada continue their battle against 8-9% inflation rates.

With rates on the 10-year U.S. Treasury note at around 3.2%, the growth and tech trade have begun to sag once again, with many 2021 high flyers now flirting with 52-week lows.

Shopify: A TFSA contrarian pick to buy amid profound pressure

Shopify (TSX:SHOP)(NYSE:SHOP) is just one of the tech darlings that's closing in on new lows for the year. The $52.5 billion e-commerce darling has a lot to lose if rates move much higher from here. Profits that lie far into the future are worth a bit less with every uptick in rates. Until rates can peak, it's not just inflation that will be fighting the Fed (or Bank of Canada), it's high-multiple tech stocks.

Inflation will peak in due time, and once it does, rates will settle, and rate cuts could provide a nice booster for battered tech plays. Now down 81% from its peak of around $200 per share, it's a long way to the top. Unfortunately, I don't think Shopify will see new highs anytime soon. But that doesn't mean the stock can't more than double from these depths.

Shopify shares look cheap for a change

CEO Tobias Lütke cannot control the trajectory of rates. But what he can do is position Shopify for the next bull run. Looking ahead, I'd look for Shopify to find the right balance between growth and margin enhancement. Mergers and acquisitions are just one lever Lütke can pull to improve upon both fronts.

In short, rates and a retail recession have weighed heavily. But the current valuation seems to discount the firm's rebound potential. At just north of eight times price-to-sales (P/S) multiple, I'd argue Shopify isn't even an expensive stock anymore.

What a horrific implosion it's been for SHOP stock

Indeed, few, if any, market participants would have seen Shopify — a stock that easily commanded a 20-50 P/S prior to its 2022 crash — would find itself trading at a single-digit P/S. Now that it's here, the name looks more than worthy of a long-term TFSA.

Yes, there are risks, especially if the Fed hikes rates by too much and causes more damage to the economy than is necessary. However, from a 10-year vantage point, I find it tough to pass up on such a well-run growth gem here if you've yet to spend your latest $6,000 TFSA contribution.

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