



Better Buy: Shopify or the Entire TSX?

Description

So far, throughout 2022, we've seen stocks across many different sectors lose tonnes of value. And although we just had a major sell-off at the start of the pandemic, many of the stocks on the **TSX** recovered in value before year-end.

2022 has seen sustained selling pressure all year, resulting in one of the worst environments for stocks in over a decade.

If you haven't been following along closely, the TSX index is down on the year, and the majority of stocks in Canada have lost significant value this year. If it weren't for energy stocks making up a substantial portion of the TSX, the performance would be much worse.

Some stocks are even down by as much as 75%, including well-known names. **Shopify** ([TSX:SHOP](#)), for example, one of the best [growth stocks](#) in Canadian history, has lost over 70% so far this year and more than 75% over the last 12 months.

So why, if Shopify is still such a high-quality stock, has it underperformed the TSX by so much this year? And is it a better investment than diversifying your money across the entire TSX?

Shopify's stock may be losing value temporarily, but it's still an excellent long-term investment

Despite the massive sell-off in Shopify stock, the company is still one of the best long-term investments you can make.

Naturally, investors expect that Shopify's business has been impacted. For certain, they anticipated a stock hit due to surging inflation and a potential recession on the horizon. From a sales standpoint, though, Shopify continues to perform well. In the last four quarters, it's managed to grow sales by over 24%.

The main reason SHOP sold off is because it was trading at a sky-high valuation at the beginning of

the year. In addition, as market conditions have changed, investors want to see more profitability out of higher growth stocks like Shopify.

Furthermore, the company has shifted to investing in improving the efficiency of its operations, which includes major upgrades to its own fulfillment network in North America.

These are essential investments that will pay dividends down the line for Shopify and its merchants. But for the time being, the increase in costs has hurt [margins](#). In an uncertain environment such as we're in today, investors are now looking for margin expansion as a sign of performance improvements.

Therefore, now is an incredible opportunity for long-term investors to buy Shopify. Not only has the stock become ultra-cheap throughout 2022, but it continues to invest in improving its operations. Long-term investors have faith that these operating efficiencies will lead to improved profitability.

Is this high-potential growth stock a better buy than the TSX?

It's always crucial to diversify your money, and you'll certainly want to own numerous stocks to help mitigate your risk. Over the long run, though, Shopify should be a much better investment than buying an index fund that tracks the TSX.

Shopify's long-term growth potential far exceeds how well the TSX could perform. Moreover, with Shopify down over 70% on the year compared with the TSX, which has lost just over 5% of its value, it's a much better investment for bargain hunters.

E-commerce has a massive runway for growth. Plus, as logistics continue to improve and shipping becomes faster and more convenient over the coming years, e-commerce sales will naturally continue to rise.

Already, we're seeing Shopify stock start to recover after it posted a smaller-than-expected loss last month on strong sales, boosted by a surging U.S. dollar.

However, it continues to trade well undervalue, more than 70% below where it started the year and at a forward [enterprise value](#)-to-sales ratio of just 7.4 times.

So if you're looking to find high-quality stocks that you can buy cheap today and hold for years to come, Shopify is one of the top stocks I'd recommend.

In this uncertain environment, it could certainly continue to fall in value and get cheaper before recovering fully. However, even at today's price, the stock offers tonnes of value. For long-term investors seeking growth, SHOP stock is certainly a much better buy than the entire TSX.

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