



Below \$40, Is Shopify Stock a Buy?

Description

Shopify ([TSX:SHOP](#))([NYSE:SHOP](#)) stock has fallen a long way to get to where it is now. Once valued at \$200 (\$2,000 on a pre-split basis), it's now below \$34. As of November 21, 2022, a single Shopify share cost \$34. That's a low that few would have thought possible just a few years ago, but it's the reality we're in today.

The question we have to ask is, is Shopify stock a buy today? Clearly, the company has seen better days, but its last earnings release actually had some bright spots in it. In its most recent quarter, SHOP's revenue growth was 22%. That's down from the heady days of 2020, when COVID store closures sent people online in droves, but much improved from the prior quarter. If Shopify can accelerate its growth even further, then it may end up being a decent buy.

In this article, I will explore the question of why Shopify has fallen so much and try to determine whether it can rise from here.

Why Shopify stock is so volatile

Shopify stock has been volatile this year for three main reasons:

1. **Rising interest rates.** The Federal Reserve and Bank of Canada have been raising rates this year. Higher interest rates make future growth less valuable, because they increase the amount of return you can get today risk free. Shopify is considered a growth stock, so it has taken a hit from the high interest rates being observed this year.
2. **Bad earnings.** Shopify's second-quarter earnings release was quite bad, featuring a billion-dollar loss and mere 16% growth in revenue — the worst in the company's history.
3. **Association with other tech stocks.** [Tech stocks](#) in general are going down this year, and because Shopify is often bundled with other tech names in tech [exchange-traded funds \(ETFs\)](#), it is going down along with them.

Will the downtrend turn into an uptrend?

Having looked at some reasons why Shopify has been so volatile, we can now try to gauge whether it will recover.

One sign for optimism on that front is the fact that Shopify's stock has historically been correlated with that of other tech stocks, many of which are now recovering from their lows set earlier this year. "Correlation" means the tendency of two things to move together in the same direction. A correlation of one means they'll move together in the same direction all of the time. According to AioloX, Shopify has a .0.93 correlation with **Apple**, which recently hit a low of \$130 and then re-bounded swiftly. If the correlation holds in the future, then there's a good chance that Shopify will rebound, too.

Another positive sign is Shopify's recent earnings release. In it, the company revealed double-digit growth in sales, recurring revenue and gross merchandise volumes (i.e., total sales powered by SHOP's platforms) for the quarter. It did not show the kind of growth that Shopify was known for in 2020, but it did grow more than it did in the second quarter. So, perhaps the future will be better than the recent past.

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