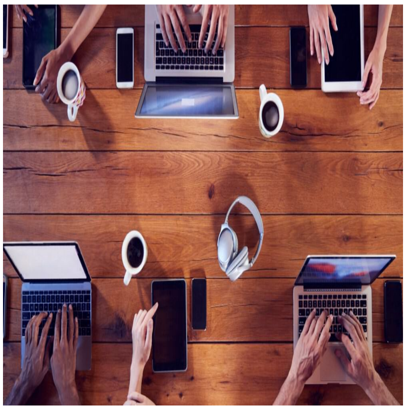

Is This Stock the Next Shopify? Don't Miss Out on This Hot TSX Tech Stock

Description

The recent market volatility we've all seen has included a severe drop followed by an extremely quick rebound. Perhaps not surprising to many investors, tech names like **Lightspeed POS** (TSX:LSPD) have led this recovery. In this article, I'm going to discuss the bullish and bearish drivers of the stock for readers.

Great business model

Despite my bearish tone on Lightspeed in the past, I recognize what many other investors see: a great business model. Canadian investors, and global investors, for that matter, are all searching for the next **Shopify**. Lightspeed fits the bill.

Similar to Shopify and other Software-as-a-Service companies, Lightspeed is largely viewed as insulated from negative market forces. This is because the company charges fees that are very low, relatively speaking; fixed-cost merchants are more likely to maintain payments.

Through this uncertainty, Lightspeed is being viewed as a utility of sorts. Therefore, investors seem to feel Lightspeed's payments are likely to continue for most small and medium enterprises (SMEs). That is certainly a good thing.

This utility-like business model buffer, which is being priced in by the market, is a key driver of why the potential churn via mass bankruptcies of SMEs globally doesn't seem to be factored in for Lightspeed right now. This is despite tens of millions of unemployment claims since March in North America. Moreover, weekly job loss numbers have continued to roll in above one million.

However, the market seems to still believe we've seen the worst of the economic pain. Perhaps they even believe the Federal Reserve will save the day, and we'll be in for another decade-long bull market. If this is true, many investors may get the fear of missing out from not buying Lightspeed on the dip, hence the rally.

Growth has become way more valuable than gold. Missing out on these rallies appears to be more painful than considering the true economic distress I believe we're about to see.

Churn and other risks are very real

As an independent investor, considering all risks associated with any investors is a Foolish thing to do. One likely risk is that the previous market volatility we saw is truly reflected in insolvency issues for SMEs in North America and globally. This will lead to companies like Lightspeed experiencing some serious churn. In turn, this would negatively affect top-line growth.

Moreover, top-line growth is the only metric investors seem to care about for growth plays like Lightspeed. This could provide material medium-term headwinds. Further, this could potentially provide additional volatility moving forward.

Bottom line

Growth at any cost is a dangerous mindset. Given the underlying structural economic issues I believe are on the horizon, it could be more costly than ever in the coming 12 months. I do not see a realistic path for companies like Lightspeed that have never been profitable.

I don't believe these companies will magically turn the corner and generate high levels of free cash flow. It's even less likely they will maintain parabolic revenue growth in the coming years. The risks are simply too great.

I would encourage investors to focus on companies with a proven track record of profitable profitability at this point in time.

Stay Foolish, my friends.

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2. Editor's Choice
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