



Tech Investors: These 3 Factors Are Key for Shopify Stock

Description

There is simply no debating that Canadian technology super-giant **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) has been one of the best-performing stocks in the tech universe in recent years. The company has benefitted from the forced move to e-commerce retailing via social-distancing orders handed down by governments across the globe.

The transition toward e-commerce for otherwise traditional brick-and-mortar retailers has accelerated to a degree few saw coming. Further, this transition has led to Shopify becoming the second most valuable company on the TSX, now challenging for the top spot. This is truly incredible.

In this article, I'm going to discuss what I believe are the three key factors investors need to pay close attention to with respect to Shopify.

Lending performance

Shopify's recently implemented capital program is a development that has been a key catalyst that has driven Shopify stock higher. Shopify now provides small and large businesses alike with capital in exchange for future sales made on the Shopify platform.

This financing mechanism has been met with praise by many analysts. They have indicated how important providing timely assistance to small businesses, which make up the majority of Shopify's customer base, is for Shopify. Ensuring the stability and survival of its customers, while also potentially turning a nice profile over time, seems like a win-win for shareholders.

Institutional investment

Shopify has grown large and has seen its market capitalization swell to mind-boggling levels. Therefore, institutional investors may now be forced to buy Shopify stock via various market-weighted metrics that would have previously excluded Shopify.

There is a known correlation between a company's market cap and its performance in recent years. This is, in large part, related to the rise of exchange-traded funds (ETFs) that buy and sell stocks mainly in proportion to their relative weightings on various indices. This technical aspect of how markets function could continue to push Shopify shares higher, regardless of the company's underlying fundamentals.

Momentum investing

The truth is that momentum investing has significantly outperformed value investing over the past decade. Momentum investing is investing in companies that have seen their stock prices rise in the recent past. Value investing has traditionally been the safest and most reliable way to pick stocks throughout history; this is essentially buying low and selling high. In contrast, momentum trading involves buying high and selling higher.

However, momentum trading continues to be the strategy of choice. This makes fundamental analysis seem obsolete in this day and age.

I've tried to [rationalize Shopify's valuation in the past](#), but I've never been able to do it. At 16 times 2021 sales, there is no rational fundamental/value-based reason to own Shopify. However, momentum investors disagree.

Bottom line

Until value investing becomes "cool" or "hip" again, companies like Shopify are likely to continue to climb into the stratosphere. Some companies seem to get a perpetual pass on valuation concerns. Therefore, I'll continue to miss out on the Shopify party based on pure fundamentals alone.

For those less concerned with valuation and who believe momentum is the trading strategy of the next decade, Shopify is the stock to own.

Stay Foolish, my friends.

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Date

2025/08/14

Date Created

2020/05/23

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