Don’t Be Stuck With These 3 Companies During a Correction

Description

Over the past five years, the markets in both Canada and the United States have been on a terrific run. While this has made a lot of people much wealthier, it has also raised some concerns. Cheap stocks are as difficult to find as ever and the markets are starting to look overpriced. Numerous observers believe that a correction – or worse – is coming.

It is impossible to predict stock-market movements (you shouldn’t even try), but there are certain stocks that are especially vulnerable to a correction – so you should be careful before buying them. Below we look at three examples.

1. Westport Innovations

Westport Innovations (TSX: WPT)(Nasdaq: WPRT) supplies technology for natural-gas powered engines. The company’s shares have not done well in the last year and are down about 40%, so one might think the shares are now cheap.

But don’t be fooled – there’s still plenty of optimism built into the stock price. Last year, Westport made just under $3 per share in revenue, not much for a company with a $20 stock. And Westport is still unprofitable, losing $0.38 per share in the most recent quarter.

It is certainly possible that Westport’s stock price is justified. But if there is a market correction, there is still plenty of room for the shares to fall. So be careful before putting your money into Westport.

2. First Quantum Minerals

Let’s make one thing clear: you don’t want to be stuck with any mining companies during a market correction. But this is especially the case with **First Quantum Minerals** (TSX: FM), for two reasons.

First of all, the copper miner has recently completed a massive takeover of **Inmet Mining**. As a result, its net debt per share now stands at nearly $5, compared to $0.18 at the end of 2012. So if a market correction is caused by slumping economies, First Quantum may be under strain and will have trouble developing its massive projects.

Secondly, First Quantum's stock has held up very well relative to other miners, about flat over the previous three years. So the share price has plenty of room to fall.

3. Canadian Pacific

Canadian Pacific (TSX: CP)(NYSE: CP) shares have certainly been on a remarkable run, up 234% over the past three years. The main reason has been new CEO Hunter Harrison and his efforts to cut costs.

And while Mr. Harrison has done a wonderful job, there is a strong argument that CP's share price is inflated, with a price-earnings ratio of 38.0. This is a big multiple for a company that only grew revenue 7.7% last year. If the stock market were to go through a correction, that multiple could easily plummet.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:WPRT (Westport Fuel Systems Inc.)
2. NYSE:CP (Canadian Pacific Railway)
3. TSX:CP (Canadian Pacific Railway)
4. TSX:FM (First Quantum Minerals Ltd.)

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bensinclair