1 Industry to Avoid at All Costs

Description

We've all spent money at one or even all of the following companies in my one industry to avoid, but that doesn't mean it's time to add them to your portfolios. With razor-thin margins, cross-border shopping, and a plethora of competitors, these companies are more show than substance in the eyes of investors.

I'm speaking of course of retail companies, more specifically non-grocery companies. It could be easy to go after grocers also, but a series of mergers over the past year has lifted most of them out of the dirt. This leaves these following companies to avoid, although there is perhaps just one that is still a diamond among the aisles.

Your friendly neighbourhood book store

First up is **Indigo Books & Music** (TSX: IDG), which operates stores under the names of Chapters, Coles, and Indigo. The company has been trying desperately to revamp its product offering by loading up on household goods, toys, and electronics to stem its losses. Indigo has been able to pay for this coast-to-coast remodeling by cancelling its dividend just before last Christmas.

Now, the company is trying to rebuild its stock price along with its in-store experience. Indigo suffered a drastic stock price shift, hitting a 52-week high of $11.44 on October 30, just to have it get erased by a 52-week low of $7.39 two weeks later on November 15. Since then, it has managed to climb back up to $10.37. This seems like a nice upswing, but there are many other companies worth your attention.

The supersized general store

It is amazing that not long ago everybody was either up in arms or giddy about the expansion of **Target** (NYSE: TGT) into Canada. Now Target has over 124 stores in operation and the sky hasn't fallen, nor has Chicken Little and all his retail operating friends hidden away in a cave with the hungry wolf. Instead, the retailer posted a $1 billion loss in 2013, followed up by a $211 million loss in the first quarter of 2014 due to its Canadian operations. In all, Target has invested over $6 billion in capital expenses and losses here, only to receive the cold shoulder.

Following these losses, a handful of top-level executives have been replaced by several new and shuffled executives in an attempt to solve the problems in Canada. Currently, Canada makes up only about 3% of the total sales of Target, and these numbers are leading many analysts to call for an orderly retreat back to the U.S. — a retreat that, if enacted, is projected to cost Target another $3.5 billion.

A glimmer of hope in an otherwise bleak sector

Despite the shortfalls of Indigo or Target, there's one company that has risen above the rest — **Canadian Tire** (TSX: CTC.A), which has seen its stock price jump from $82.23 on July 15, 2013 to a closing price Wednesday of $102.39 and an average price target of $121.00.

This increase follows a massive store/brand restructuring campaign and the successful acquisition of FGL Sports, which was responsible for Sport Chek, Hockey Experts, Sports Experts, National Sports, Intersport, Pro Hockey Life, and Atmosphere. These changes are in addition to some other clever and successful moves, such as spinning off its assets into a REIT and selling a portion of its financial services division to **Bank of Nova Scotia**. These changes have done wonders to maintain the confidence of investors, who are being treated to a dividend of $2.00 annually with a yield of 1.9%.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:TGT (Target Corporation)
2. TSX:CTC.A (Canadian Tire Corporation, Limited)
3. TSX:IDG (Indigo Books & Music)

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Author
cameronconway