2 Reasons Why Your Stocks Are Underperforming

Description

Do you ever get frustrated with a stock holding, whose share price moves essentially sideways or worse, falls like a rock? Well, here are some logical explanations.

You bought it at an expensive valuation

Sometimes a business can be perfectly fine, but it could perform badly if an investor buys it at an expensive valuation.

Let's use **Canadian Apartment Properties REIT** (TSX:CAR.UN) as an example. It is a residential real estate investment trust (REIT) with interests in multi-unit residential properties, including apartment buildings, townhouses, and land lease communities located in or near major urban centres across Canada.

The company is a quality REIT with a strong focus in Ontario, earning about 52% of its net operating income from there.

However, it trades at an expensive multiple of about 17.5, and it's expected to grow roughly in pace with the long-term inflation rate of 3%. Its units can come down to its normal multiple of about 14.3 over time, probably triggered by bad news, such as rising interest rates or a Canadian housing bubble bursting.

Since the stock is priced at an expensive multiple, it's likely to underperform, even though the business is doing fine. In the near term, its quality portfolio might allow the units to go sideways instead of downwards.

Image not found or type unknown
question-63916_640

Earnings deterioration

Occasionally, companies experience bumps and earn less profits than before.

For example, **Empire Company Limited's** (TSX:EMP.A) earnings per share (EPS) for fiscal 2016 were 20% lower than the previous year. In the next fiscal year that ends in April, its EPS are expected to continue to fall.

The company has been facing challenges, particularly in western Canada, due partly to the Safeway banner. These challenges revolve around integrating, operating, and reorganizing the Safeway business, which Empire acquired in 2013.

For example, there were merchandising issues such as the private label conversion and supply chain issues, which impacted the offerings available to customers.

No wonder the shares of the food retailer have declined more than 30% from a year ago. Once management fixes the listed issues and wins back its customers, its earnings should improve and its shares should head higher.

Conclusion

Investors can aim to avoid buying stocks when they're expensive by examining their valuations and their expected growth rates. On top of that, they can choose to sell stocks when the underlying companies are facing issues and cut losses if need be.

However, the best strategy is to identify great businesses and wait for opportunities to buy them at reasonable or discounted valuations. Then hold them for a long time. After all, even great businesses can experience bumps, but eventually, they will overcome the problems and hit new highs in the future.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:CAR.UN (Canadian Apartment Properties Real Estate Investment Trust)
2. TSX:EMP.A (Empire Company Limited)

Category

1. Dividend Stocks
2. Investing

Tags

1. Editor's Choice

Date
2025/07/25

Date Created
2016/11/24
Author
kayng