Insiders Are Dumping Canada Goose Holdings Inc.: Time to Sell?

Description

The stock of **Canada Goose Holdings Inc.** (TSX:GOOS)(NYSE:GOOS) is picking up negative momentum after a strong rally in the months following its IPO. In my previous piece on Canada Goose published on June 14th, I warned investors that the easy profits have already been made and that a better entry point could happen in the months ahead.

Fast forward one month later, and shares of Canada Goose are down nearly 16% as investors head for the exits with their profits.

To make matters worse, insiders have also been dumping their shares in huge amounts of late with over $55.8 million worth of net selling happening over the last 60 days. While there are many possible reasons as to why an insider would dump their shares, such a huge amount of net selling should ring alarm bells in the ears of investors.

Canada Goose sells high-end outerwear, and, as you'd expect, the company is susceptible to the effects of seasonality. The company is focused on a very niche market, and unfortunately, the management team has no interest in selling swimwear to offset a seasonal slowdown.

Canada Goose has explosive growth prospects and the brand awareness continues to climb across the globe. The company has grown at a compound annual growth rate of 38.3% over the last three years, and while it's likely that the company can continue to grow at such a high rate, it's important to remember that luxury outerwear is not only seasonal, but it's extremely cyclical.

I'm not a fan of extremely cyclical stocks because the stock will drop a lot more than most stocks once the next recession comes — and yes, a recession is coming; we just don't know when, but we're overdue for one.

I'm also not too excited about Canada Goose's absurd valuation. Although the company's most recent quarter saw a 22% increase in revenue to $51.1 million with direct-to-consumer sales rising 174% to $36.5 million, the price-to-earnings multiple is off the charts, and I'm not sure if the company can keep up its performance once the economic environment becomes bleaker.

There’s no question that the brand is strong and the company will continue to make a name for itself across the globe, but I think shares are treading on the fine line between investment and speculation at this point. Unless you’re extremely bullish on the global economy, I’d look elsewhere, especially considering the huge amount of downward momentum the stock is facing right now.

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