Where Are Shares of Canadian Tire Corporation Limited Headed?

Description

The past five years have been very fruitful for investors of **Canadian Tire Corporation Limited** (TSX:CTC.A). Shares have increased by approximately 110%, and the dividend has increased steadily over the same period.

Over the past six months, however, shares have turned from hot to cold. Currently offering investors a dividend yield of close to 1.8%, performance has been flat over the past six months. The good news for investors is that shares attempted to resume the bull run, but they simply didn't have the momentum. Reaching a 52-week high of $171.91, investors have witnessed a decline of 16.5% from the high. For a defensive retail outfit such as Canadian Tire, a decline of more than 15% is significant.

Given the most recent pullback, investors may need to stop and consider if the company has now settled or has started the beginning of a downward spiral. The bad news is that shares, which were running, have since reversed course and crossed over the 200-day simple moving average (SMA) from above. Shares now potentially trade in bearish territory. The 50-day moving average is still in the process of catching up to the current share price, which could signal further trouble.

It is widely recognized by market technicians that a 50-day SMA which crosses under the 200-day SMA is a sign that a stock is in bearish territory. Oftentimes in these cases, the momentum moves from a tailwind to a headwind, which means that investors will take the approach of "show me the money" instead of sitting back and assuming that everything perfectly fine.

The challenge that may be on the horizon for shareholders is that the growth in revenues has started to taper. In addition, the possibility that goods will be offered much cheaper elsewhere over the few months will weigh on profitability. As many are aware, **Sears Canada Inc.** (TSX:SCC) has recently obtained approval from a bankruptcy court to begin inventory liquidation.

For consumers who may need items that are usually bought every two to five years, such as a lawn mower or patio furniture, there may be fantastic deals to be had that otherwise would not have been available. Had Sears not gone into bankruptcy, the inventory might have sat in the warehouse, waiting for full price to be paid.

The negative effect this could have on shareholders of Canadian Tire is that the clientele which otherwise would have shopped in its stores could cross the street to Sears while it still exists. In the short term, retail clients will save a bundle, shareholders will lose, and the retail landscape will change once again.

For investors who are prepared to be patient, shares of Canadian Tire may just be a fantastic buy for another five years' time, but softness may offer a better entry point over the next few months.

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