Caution: 3 Types of Stocks You Should Not Buy and Hold

Description

One of Warren Buffett's famous quotes is, "Our favourite holding period is forever." The idea is to hold on to great businesses for as long as the businesses (not the stocks) continue to perform and their long-term prospects remain intact.

However, certain businesses don't work well for a buy-and-hold strategy. That includes businesses whose profitability is reliant on high commodity prices, cyclical businesses, and businesses in industries which have been disrupted by new technologies.

Businesses with commodity exposure

Energy and mining companies that are reliant on high commodity prices to do well should not be buy-and-hold investments. These stocks have above-average volatility in their share prices, and management must accept whatever prices the underlying commodities are selling at — even when they're very low.

By looking at the multi-year share price chart of **Raging River Exploration Inc.** (TSX:RRX), an oil-weighted junior producer, you can see that the company's share price can be quite volatile.

Even though the company is expected to generate strong cash flows, the volatility of earnings and cash flows from changing commodity prices puts pressure on the stock when energy prices are low.

Even for a large, integrated energy company such as **Suncor Energy Inc.** (TSX:SU)(NYSE:SU), its share price has largely traded in a range sideways since 2008. From the recent trading history, the stock is better traded by buying in the high $20s or low $30s and selling in the $40s.

Similarly, one should try to catch **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) and **Cameco Corp.** (TSX:CCO)(NYSE:CCJ) at their lows and sell at highs instead of holding them for the long term.

Cyclical businesses

Snc-Lavalin Group Inc. (TSX:SNC) is a leading engineering and construction company. It tends to do well when the economy is booming. Since 2008, it has traded in a range of ~$35 to ~$58.

It finally looks like its earnings and cash flows have caught up to its share price, and if the economy continues to improve, the shares could experience a nice pop.

Disrupted industries

Amazon.com, Inc. (NASDAQ:AMZN) and e-commerce in general have caused some retailers to go out of business and many others to change the way they sell.

Retail real estate investment trusts have also been affected indirectly. For example, both **RioCan Real Estate Investment Trust** (TSX:REI.UN) and **Smart REIT** (TSX:SRU.UN) are trading near their 52-week lows.

As another example, electric cars will replace gasoline cars over time. Although still unprofitable, **Tesla Inc.** (NASDAQ:TSLA) stock has done markedly better than **General Motors Company** (NYSE:GM) and **Ford Motor Company** (NYSE:F).

In the last 12 months, Tesla stock has appreciated 54%, while GM and Ford have appreciated 9% and 15%, respectively. Tesla stock's five-year performance is even more amazing — up +1,000%!

Tesla shareholders believe in the company's bright future prospects. And the stock will likely continue to do well unless the general market tanks.

Investor takeaway

Investors should be extra careful around commodity-related stocks, cyclical stocks, and stocks in disrupted industries. Certainly, do not be complacent.

CATEGORY

1. Dividend Stocks
2. Energy Stocks

3. Investing
4. Metals and Mining Stocks
5. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:AMZN (Amazon.com Inc.)
2. NASDAQ:TSLA (Tesla Inc.)
3. NYSE:CCJ (Cameco Corporation)
4. NYSE:F (Ford Motor Company)
5. NYSE:GM (General Motors Company)
6. NYSE:SU (Suncor Energy Inc.)
7. NYSE:TECK (Teck Resources Limited)
8. TSX:CCO (Cameco Corporation)
9. TSX:REI.UN (RioCan Real Estate Investment Trust)
10. TSX:SU (Suncor Energy Inc.)
11. TSX:TECK.B (Teck Resources Limited)

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kayng