2 Stocks Near 52-Week Highs That You May Want to Avoid

Description

When a stock reaches its 52-week high, it is a signal that the shares have performed very well, but it could also suggest upside in the price might be limited going forward, unless the company has had a strong quarter or good news that might give it some momentum.

Investors should be careful about reading too much into highs, since a company that is on a persistent incline will always be reaching new highs. Selling a stock just because it has reached a high could mean a loss of potential profit. It is important to consider each circumstance and evaluate whether the share price has the potential to keep going up or if it is time to sell.

I'll have a look at two stocks that are near 52-week highs and assess if either one is a good buy or if you should be selling off any gains.

Linamar Corporation (TSX:LNR) was trading less than two dollars away from its 52-week high as of Friday, just 2% away from its peak. The diversified manufacturer of engineered projects has seen its share price rise 30% in the past year; just in the past three months, it has increased over 12%.

Currently, Linamar's share trades at a multiple of less than nine times earnings. Although for a value investor that could be a low multiple, it is at the top end of its peers. In its most recent quarter, the company's revenues showed growth of just over 6% year over year. In its last fiscal year, Linamar saw revenues increase by 16%.

This is not the type of growth that would suggest the stock is going to be taking off, nor is the company in the type of industry that would involve a great deal of hype. For those reasons, it may be better to sell off your gains as opposed to buying shares at this price.

On Friday, **WestJet Airlines Ltd.** (TSX:WJA) closed about 5% from its 52-week high, which it reached at the end of August. The stock has been on a sharp decline since then. Although the shares have risen over 11% in the past three months, it has declined by 2% in the past month and could be losing steam.

The airline posted a strong second quarter at the start of August. The company's revenues increased

11% year over year, while profits rose almost 30%. These are impressive results for an airline that only saw 2% revenue growth in its last fiscal year and recorded a drop in profits as well. The increasing demand the company has benefited from is not sustainable in the long term, and that is why I wouldn’t expect this type of growth to last, especially as the airline faces more competition.

WestJet currently trades at over 11 times its earnings, while its peers trade at noticeably lower multiples. Although the airline typically trades at a premium, to expect more of an upward push in price would be a bit too optimistic. At over $25 a share, WestJet doesn’t have a lot of upside left, and I would definitely be selling this stock.

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