Is the Market Overvalued and Due for a Correction?

Description

The TSX is in all-time-high territory, and this in and of itself is something to consider when we think about market expectations. Investors have seemingly forgotten about the dangers of bidding stock prices up too high, as the stock market roars to record levels.

Today, the markets have given us signs that expectations and valuations are too high.

Roots Corp. (TSX:ROOT) tanks on first day of trading

October 25 was the first day of trading for Roots. And it was not a good day. The stock has declined more than 16% as of the time of writing, as it seems that investors are not as positive on the company as the IPO price of $12 would suggest.

Granted, the retailer's IPO has come at a time when the industry is in a very uncertain spot. There's the continued demise of traditional retailers such as Sears Canada, and rising interest rates that will surely affect consumer spending, as debt levels are high and the servicing of this debt gets more expensive.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI) disappoints

Canadian National reported its third quarter yesterday, and it was a disappointment, as the company came in a penny shy of consensus expectations. In fact, estimates for the company had already been coming down ahead of the quarter.

Costs have risen this quarter, and the operating ratio increases to 54.7% compared to 53.3% last year. Recall that the operating ratio is operating costs as a percentage of revenue. So, the lower it is, the better.

Many analysts are now putting a "hold" rating on the stock.

The stock is down almost 2% at the time of writing.

Air Canada (TSX:AC)(TSX:AC.B) shares fall despite good quarter

Air Canada dropped more than 3% yesterday, as the company reported its third-quarter results that were in line with expectations, showing that the company is still going strong.

When a company meets expectations and the stock still falls, that is a sign that valuations and expectations in the market are too high. Is this the case with Air Canada?

Here are a couple of points from the quarter that may be a cause for concern:

Firstly, the third-quarter results show a slowing of growth. Traffic increased 8.8% in the quarter versus a 13.6% increase last quarter.

Secondly, operating expenses increased 9% to $3.9 billion, partly driven by higher oil prices versus last year.

There are two risks that I am keeping an eye on, as we cannot deny that Air Canada management has done a phenomenal job at improving its business, but these things could interfere with the company’s plans for success. For example, there’s the potential for continued strengthening in oil prices further increasing costs, and the heavy consumer debt loads reducing demand.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:CNI (Canadian National Railway Company)
2. TSX:AC (Air Canada)
3. TSX:CNR (Canadian National Railway Company)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/10
Date Created
2017/10/26
Author
karenjennifer