4 Stocks That Could Be in for a Difficult 2018

Description

The S&P/TSX Index has increased 5.1% in 2017 as of close on November 22. The index shook off a summer swoon to come roaring back in early September in a rally that still appears to have legs heading into December. The International Monetary Fund (IMF) predicts that Canadian GDP growth will still be solid in 2018, and the legalization of recreational cannabis will undoubtedly pique even more interest.

However, today we are going to look at four stocks that may struggle in 2018 if the current course continues.

Roots Corp. (TSX:ROOT) made its debut on the TSX with an initial public offering (IPO) priced at $12 per share on October 25. Shares plunged 20% on the same day and have remained mostly static in the ensuing weeks. In a late October article, I'd suggested that investors should shy away from Roots for the time being.

The tumultuous state of traditional retail has made it a risky proposition for investors to stake their bets on retail stocks. Roots's IPO did not inspire confidence, and now the company will be under significant pressure ahead of the release of its third-quarter results on December 6. The company may yet make a comeback, but there are simply better options out there.

Cara Operations Ltd. (TSX:CARA) operates a number of restaurant chains, including Harvey's, Kelsey's, Montana's, and several others. Shares of Cara Operations have declined 1.2% in 2017 as of close on November 22 and have dropped marginally year over year. In its third-quarter results, Cara Operations showed same-restaurant sales growth of 0.9% and flat performance year to date. The company has been powered by the additions of St. Hubert and Original Joe's. Casual dining restaurants are facing new challenges as younger clientele favour quick-serve-style chains. The stock has dropped 25% over a five-year period.

Yamana Gold Inc. (TSX:YRI)(NYSE:AUY) has dropped 9% in 2017 and 16% year over year. Yamana Gold is one of the largest gold producers in Canada. I recently discussed if Yamana Gold was a good candidate to stage a comeback in 2018. The company released its third-quarter results on October 26.

Net earnings jumped to $38.3 million from a net loss of $2.1 million in Q3 2016, but year to date, Yamana Gold has posted a net loss of $4.5 million compared to earnings of $64.3 million in the prior year. With the U.S. dollar showing strength in the final leg of 2017, and tax reform looking likely to pass, gold could take another beating in 2018.

Equitable Group Inc. (TSX:EQB) has climbed an impressive 22.7% over a three-month period as of close on November 22. In its third-quarter results, net income jumped 7% from Q3 2016, and mortgages under management saw growth of 14%. However, Equitable Group has projected that the new OSFI rules coming in January 2018 will likely slow its loan growth. A rocky start for Canada housing as the industry adjusts to the new rules could spell trouble for Equitable Group stock for a good portion of 2018.

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1. Investing

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1. NYSE:AUY (Yamana Gold)
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3. TSX:RECP (Recipe Unlimited)
4. TSX:ROOT (Roots Corporation)
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