These 2 "Cheap" Stocks Are Poison for Your Portfolio

Description

Portfolio rebalancing is incredibly important, especially in this day and age, when technological disruptors are looking to gain market share across virtually all industries. From mattresses to tomatoes, no retailer is 100% insulated from the rise of digital disruptors, and as time goes on, tech and logistics capabilities will improve, resulting in mounting levels of disruption, which could pose insurmountable problems for traditional firms that are being forced out of their circles of competence. And for the disruptees who fail to adapt, well, they could go the way of the retail graveyard.

Given such disruptive forces, it often pays to reconsider your long-term investment thesis in stocks you've become attached to over the years. Consider **Loblaw Companies Ltd.** (TSX:L) and **Metro, Inc.** (TSX:MRU), two Canadian grocers that I believe are sitting ducks for both **Amazon.com, Inc.** (NASDAQ:AMZN) and **Wal-Mart Inc.** (NYSE:WMT). Both Amazon and Wal-Mart are furious competitors with superior tech and logistics capabilities, and they are hungry for Canada's share of the grocery market.

Loblaw and Metro have typically thrived in the low-margin Canadian grocery scene, but with Amazon and Wal-Mart coming with grocery-delivery platforms of their own for select Canadian markets, well, I don't want to be a shareholder of a disruptee, even if there's a chance that either firm can properly adapt to retain its market share.

There's too much uncertainty in the Canadian grocery scene, and although their respective pharmacy chains (Shoppers Drug Mart and Jean Coutu) are compelling, they won't mean much once consumers start shifting towards the more efficient, lower-cost grocery-delivery services that I believe will create too competitive an environment for traditional grocers to co-exist in without taking massive hits to top and bottom lines.

When it comes to groceries, convenience and lost cost are key. There's no question that Amazon and Wal-Mart are able to thrive in a razor-thin-margin environment while being able to offer consumers extremely low-cost (or free) same-day delivery services. Although Loblaw and Metro are beefing up their respective online platforms, I do not believe they'll do much to offset imminent pressures.

Grocery stocks are cheap … or are they?

Both Loblaw and Metro shares have gone nowhere over the last two years, and as a result, each respective stock is the cheapest it's been in a long time. But there's a good reason for that! Over the next decade, I find it very difficult to see shares of each respective company at higher levels, given the disruptive potential of Amazon and Wal-Mart, both of which, I believe, will prey on Canada's old-fashioned grocers, as their margins are slashed to remain competitive.

Loblaw and Metro shares trade at 17.5 and 5.4 times trailing earnings, respectively. The latter stock seems like an [absolute bargain](#), but I believe the implied margin of safety is just an illusion, as long-term investors would be taking on substantial risk by owning shares at current levels. By picking up shares today, you're exposing your portfolio to one of the most preyed-on industries in the Canadian market today.

As such, I believe shares of firms will stand to be punished over the next few years, as management commentary begins to blame sub-par financial results on the impending e-commerce disruptors.

Bottom line

If you own either Loblaw or Metro, it may be time to trim or eliminate your exposure, as Amazon's disruptive potential is something to be feared for grocery operators. I wouldn't touch either stock at these levels, at least until after a more violent correction.

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joefrenette

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