2 Growth Stocks to Steer Clear From (and 1 Winner)

Description

In today's murky and uncertain economic environment, picking growth stocks has become the strategy of choice for investors looking to take advantage of a bull market which has continued to roar forward in recent years. The act of stock picking is perhaps more important in growth sectors, given the abnormally high valuation multiples many such companies receive.

I'm going to dive into three companies — two of which exhibit signs of material overvaluation, and one with the potential to continue to grow, despite near-term headwinds.

Cineplex

In August of last year, I'd suggested Foolish readers consider forgetting **Cineplex Inc.** (TSX:CGX) altogether, considering a variety of sector-specific long-term headwinds that I believed would continue to hamper the stock. Since that recommendation (which followed a 35% drop in the company's share price), the share price of Cineplex has continued to fall, dropping another 13%.

Some pundits have suggested that the company's poor performance through the first half of 2017 could be related to a "weak" movie slate or other extraneous factors that are out of Cineplex's control. Others have said that the company's new acquisitions outside the cinema space make this company a more well-rounded or "diversified" play.

The reality remains that the vast majority (approximately three-quarters) of the company's revenue comes from its theatre/concession business, and I just don't see the company innovating as fast as it needs to in order to keep up with streaming services, which may make the movie theatre the new "drive-in movie," as suggested by Fellow Fool contributor Joey Frenette.

Shopify

I have been skeptical of **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) for some time now due mainly to the company's astronomical valuation multiple. From the perspective of any sane value investor, this company's price to sales ratio of 24 (more than 30 before its most recent dip) should be enough to warrant a "pass," although we know companies such as **Amazon.com, Inc.** have found a way to defy the laws of sound fundamental finance for decades.

Maybe Shopify is the next Amazon, but considering the stock's sensitivity to recent short attacks, I believe the bottom could be much, much lower for this company in 2018 and beyond.

Spin Master

Despite concerns about how a Toys "R" Us bankruptcy could affect sales at toy maker **Spin Master Corp.** (TSX:TOY), I believe this is a company with the potential to continue to grow based on strong fundamentals and a balance sheet which is as close to pristine as I have seen among comparable companies in the growth sector.

Spin Master has a minuscule debt load, an impressive cash position, and a track record of releasing winning toys on a yearly basis, improving quarterly numbers during periods in which investors may otherwise not be focused on toy makers. With the company expected to continue to grow sales through its e-commerce strategy and direct-to-consumer platforms, I don't see any significant impact for the firm in the long-term due to the highly publicized Toys "R" Us liquidation.

Shares of Spin Master are currently trading nearly 20% below their all-time high achieved earlier this year, making this a great play to buy the dip for investors looking for a long-term growth play.

Stay Foolish, my friends.

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2. TSX:CGX (Cineplex Inc.)
3. TSX:SHOP (Shopify Inc.)
4. TSX:TOY (Spin Master)

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