2 Spoiled Stocks to Eliminate From Your Portfolio

Description

It's hard not to get attached to our winners, especially if we've held onto our shares for years. To dump a stock that's made you so much may seem like a betrayal! But let's be real: it's your emotions doing the talking! It's important to keep emotions out of the equation if we intend to achieve superior results over the long term.

Warren Buffett himself is a proclaimed buy-and-hold-forever investor, but he also sells positions at the right time. Secular upswings are great when they happen, but when an environment changes for the worse, a long-term thesis may be in jeopardy. If that's the case, then it may be time to take profits and break up with the market darling before it ends up hurting you and your portfolio's results!

Secular headwinds are dangerous to a portfolio's health, and they're not to be taken lightly.

Many Fool followers may remember my controversial Cineplex sell calls back when things were fine and dandy. I noted a handful of secular headwinds and reasons why the stock would correct. The next thing you know, the stock shed half of its value over a very short period and many investors were left scratching their heads.

Without further ado, here are two Canadian stocks you may want to take profits from before they correct:

Dollarama Inc. (TSX:DOL)

I know this probably isn't going to be a popular sell recommendation, as this stock has made many investors very rich over the past decade. Dollarama has captured a significant chunk of the Canadian dollar store market thanks to its firm $4 price cap, and promising supply deals have allowed the company to pass such great deals to customers.

Despite the immense success, I've mentioned in a previous piece that the valuation has become stretched and that there's a serious threat that's moving in to steal Dollarama's lunch: Miniso.

Miniso is a Chinese-Japanese discount retailer that has drawn massive crowds in its Canadian stores.

Fellow Fool Mat Litalien noted that Miniso is poised to open 500 new stores across Canada over the next three years. “Dollarama will be faced with new competition in approximately 50% of its markets,” said Litalien.

I think Dollarama’s top-line could take a hit in conjunction with the new level of competition that’s about to hit the Canadian discount store scene.

Saputo Inc. (TSX:SAP)

The fiscal 2018 profitability numbers were pretty spoiled for Canada’s largest dairy processor.

Adjusted EBITDA margins fell 60 basis points in spite of improved revenue numbers, and U.S. operations took a 160 basis point hit thanks in part to higher transportation costs down south. With a vast amount uncertainties on the horizon including negative implications from Trump’s trade war, I think investors ought to consider their portfolios as lactose intolerant, at least until shares correct to more reasonable levels.

Further, Saputo remains at the mercy of external events, including the price of raw materials, which some analysts believe may account for up to 85% of costs of goods sold. At the $44, I believe the stock is ripe for a pretty mild correction.

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