Have You Eliminated These 2 Spoiled Stocks From Your TFSA Portfolio Yet?

Description

Back in July, I published an article entitled "two spoiled stocks to eliminate from your portfolio" that shed light on two of my least favourite, short-worthy stocks.

The two stocks that I mentioned were **Dollarama** (TSX:DOL) and **Saputo** (TSX:SAP), two popular defensive stocks that many investors were likely holding within their registered accounts (like a TFSA or RRSP).

I urged investors to reconsider their holdings and to trim if possible, as there was "writing on the wall" that led me to believe that a correction was warranted in the stocks of both companies.

Now, I'm not a short-seller who's actively looking for bear market moments on the TSX, but I couldn't help but notice the mounting headwinds in a select few Canadian companies when taking a top-down approach (starting with the macroeconomic picture first and narrowing down to individual companies themselves) to discover trends.

It's these rapidly mounting headwinds that allowed me to warn Foolish investors about the imminent **Cineplex** crash before the fact.

While "forever" may be our favourite holding periods for stocks of wonderful businesses, it's essential to update your long-term investment thesis to ensure that the circumstances haven't changed.

In an era of rapidly-change and technological disruption, there's no question that an investor's original thesis could stand to suffer from obsolescence over the course of a few years or months.

Yes, I know, holding a stock forever is a desirable, especially for part-time DIY investors who have other things to do. But if you fail to keep up with your homework, you could fall into "obvious" pitfalls that could damage your portfolio's returns.

Shares of Dollarama and Saputo are now down 16% and 13%, respectively, since the time my July 10 sell calls, while the TSX has retreated 3%.

So, now that both stocks have corrected, is it safe to jump back in?

Until evidence suggests that either firm can overcome their set of headwinds, I'd keep both stocks on my "no-fly" list. I believe that both Dollarama and Saputo have further downside and would encourage investors to steer clear of the names, as each firm's headwinds continue to look daunting.

Foolish takeaway

Very few stocks deserve a permanent spot in your portfolio, so I'd encourage you to stay "in the know" on your portfolio holdings so that you can patrol and re-evaluate your thesis on the fly. I believe this will help you avoid substantial downside when the story no longer looks as bright as it did when you decided to hit the "buy" button.

Saputo is at the mercy of exogenous factors (raw material costs) within an unfavourable industry that's only being made worse by President Trump's trade war.

I believe Dollarama is in the middle of a massive correction that'll result in a much lower multiple to account for the more significant challenges that lie ahead, most notably rising competition and slowing same-store sales growth numbers.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:DOL (Dollarama Inc.)
2. TSX:SAP (Saputo Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
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