Risky Market Round-Up: 3 Fun Ways to (Probably) Lose Money on the TSX Index

Description

Three attractive industries; one somewhat bemused stock market: these are three of the riskiest ways to invest in the TSX index. Which do you hold positions in, and which have caught your eye lately?

Legal Canadian pot

To get behind a weed bears' tongue-in-cheek phrase, the pot-com bust is almost certainly about to happen — and very, very soon. As of October 17, disappointment with lower-than-expected early sales figures is highly likely to hit the market hard, potentially even having wider ramifications for the TSX index as a whole. Unfortunately, most of the stocks involved simply do not stand up to scrutiny and should not have been bought by traditional long-term investors in the first place.

Canopy Growth's (TSX:WEED)(NYSE:CGC) market cap of $14 billion is one of the main reasons that investors in the know might want to stick with the bigger pot stocks, but only stay in any moderately deep position if you got in at the ground level and really want to ride the green wave longer than another year.

There's no value to lock in now and hasn't been for a long time, so realizing gains on a recent entry is a very good idea; meanwhile, buying now is a sure way to lose your dollars real fast, unless you're a day trader looking to cash in on the last few minutes of upside this side of legalization.

The other side of legalization? Another Canadian legal pot boom will probably happen: once the black market competition has been dispensed with (pun alert) and demand has seen the kind of growth necessary to sustain the better-prepared suppliers, this potentially enormous industry will begin to stabilize. If you missed out this time around, that's when slowpoke pot stock aficionados will find their second wind. Looking for a date? Give it a year, at least.

Real estate

Big, diversified REITs with low debt are the best way to invest in real estate at the moment. The industry is looking decidedly shaky, though, and could become seriously brittle if anything even resembling an economic downturn materializes. Rising interest rates and challenges for first-time buyers are hardening the market, while house prices are still stupidly high (despite falling 11% this year), and buying is still uncomfortably low.

RioCan (TSX:REI.UN) is arguably the most defensive stock of its kind on the TSX and should probably be one of your only buys if you want to get in on this industry. It's currently trading at book value, has a smidgen of growth ahead (about 7% over the next couple years), and carries debt of 77.1% of net worth, which is good for an REIT.

Artis REIT, **Morguard REIT**, and **Agellan Commercial REIT** are good examples of competitors, though do watch out for debt levels that approach total net worth, especially if you have a low tolerance for risk.

Metal and mining

Lithium fiends hoping against hope that the tech sector never finds a replacement for the grey stuff in smartphone, laptop, or electric vehicle batteries — or that new mines remain resolutely closed, thereby strangling supply — may want to think about cashing in sometime soon. **Lithium Americas** (TSX:LAC)(NYSE:LAC) has seen its window for upside closing for some time, now, to give a popular example.

While lithium remains a lucrative commodity, most capital gains have already been realized for Lithium Americas's investors, and it may be a little late to get in, especially if value is a concern. A P/B ratio of 3.7 times book gives you some idea of how overvalued this stock remains, while an expected annual growth in earnings of 30.3% is what you'd want it for in the first place; a low debt level of 0.9% of net worth rounds out why this stock is an exemplary pick for the risk-averse investor, however.

The bottom line

Overexposure to more than one of the above industries is probably a pretty bad idea right now. Normally, a spread of industries would offer diversification, and thus strength, to an investment portfolio; the opposite is the case here.

However, there is still some upside to be had: lithium and real estate are probably about neck and neck for newcomers, while pot trails any other Canadian industry at the moment in terms of defensiveness and should be avoided.

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TICKERS GLOBAL

1. NASDAQ:CGC (Canopy Growth)
2. NYSE:LAC (Lithium Americas Corp.)
3. TSX:LAC (Lithium Americas Corp.)

4. TSX:REI.UN (RioCan Real Estate Investment Trust)
5. TSX:WEED (Canopy Growth)

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Date
2025/08/15
Date Created
2018/10/12
Author
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