Avoid the “October Curse” and Sidestep Overvalued Stocks Like These

Description

What is it about October? Post-earnings season and pre-Christmas seems to be whatever the opposite of a sweet spot is when it comes to the markets. There have been a few really bad Octobers in investment history: many of our readers will no doubt remember the 1987 crash, (perhaps fewer that of 1929), 1989’s famous Friday the 13th sell-off, the twin crashes of 1978 and ’79, and of course the great nosedive of 2008. All occurred during the notorious tenth month. Is October cursed for investors? It certainly seems that way.

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It’s already been a bad month in terms of investments, with the latest rain clouds gathering over the pot stock bust. Most notably, FAANG stocks took a big hit last week; the trend emerging here is that investors are becoming fed up with overvaluation in the face of market uncertainty, and it’s starting to have big real-world implications. But tech and pot aren’t the only places where overvaluation lurks: some of the more mundane industries are overpriced too. Let’s look at some of the worst-valued tickers among them.

Canadian Pacific Railway (TSX:CP)(NYSE:CP)

Overvalued compared to its future cash flow value, this overpriced stock has a pretty varied mix of multiples. A P/E of 17.2 times earnings and PEG of 1.8 times growth aren’t too bad. But then we get to a P/B of 5.9 times book and suddenly it becomes clear: this so-called dividend stock is just not worth buying right now.

A 9.8% expected annual growth in earnings doesn’t do much to set hearts a-flutter, though a return on equity of 35% last year certainly puts a gold star on this stock’s quality chart. The aforementioned dividend yield of 0.96% is far too low to interest a passive income investor, while a debt level of 129% of net worth is just flat-out off-putting. A little inside selling in the last three to six months puts the last nail in the coffin.

Alimentation Couche-Tard (TSX:ATD.B)

Discounted by 10% of its future cash flow value, a casual glance would tell you that this stock is a decent buy today (you would be wrong). A P/E of 15.4 times earnings would seem to confirm good value, leading less wary value-investors to buy. However, a PEG of three times growth and P/B of 3.5 times book tell a different story. Again, low growth prospects and high debt are off-putting, so this wouldn't be a Canadian stock to buy just at the moment.

Imperial Oil (TSX:IMO)

Another so-called discounted stock, Imperial Oil has a whole 4% knocked off its future cash flow value if you buy today! However, if you're a P/E-focused value investor, you may decide not to: it's up at 38.6 times earnings at the moment. A PEG of 2.2 times growth is a little high, though a P/B of 1.5 times book isn't too bad for an oil stock. A 17.4% expected annual growth in earnings looks moderately good, and a dividend yield of 1.73% is better than nothing. It's still not a buy, though, from a value perspective.

The bottom line

It's too easy to look at one or two value indicators and take them at face value. We *could* say that Imperial Oil is trading at a discount; we wouldn't be wrong, because it's discounted against projected future value, but its P/E is rather too high to call this a well-priced stock. Similarly, Canadian Pacific Railway, a favourite of domestic stock pundits, has a sober P/E ratio only a couple of points higher than the TSX index.

Unfortunately its P/B ratio is almost six times its book value, making this rail stock a poorly-valued pick altogether. Want to steer clear of the October Curse? Take a good look at your socks and avoid buying overvaluation.

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