Investors: Sell These Retail Stocks Before They Take Another Nosedive

Description

The retail industry is an infamously cyclical one — a fact that we may have forgotten as a result of the seemingly never-ending upside that the consumer-led economic rally has brought us.

Well, times are changing.

This consumer-led economic boost was brought to us courtesy of record-low interest rates.

And while interest rates are still low relative to history, the most recent 25-basis-point increase in the Bank of Canada's benchmark rate brought it to 1.75% — a whopping 125-basis-point increase from 2017 levels.

It's a big move that will invariably put the consumer at risk, especially considering their record-high household debt levels, as debt becomes more expensive, eating away at disposable income — hence, eating away at consumer spending and retail sales.

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) stock is trading 28% below highs that were hit earlier this year, and while this is a sharp drop, the stock is still trading at sky-high valuations that are not sustainable in my view, especially considering a weakening consumer spending environment and the company's increased investments in China.

Canada Goose has been very successful in establishing its premium outerwear brand, with consumers paying upwards of $800 for their Canada Goose jackets, but going forward, key risks remain.

The company has been expanding globally, but 39% of its revenue still comes from Canada, and as such, it is still vulnerable to a weakening in Canadians' purchasing power.

Roots (TSX:ROOT) stock is trading below its IPO price once again — more than 50% lower to be more precise — as the stock continues its volatile ride.

Challenges remain, and with second-quarter results that have come in below expectations, as same-store sales increased a very modest 1.1%, the future is unclear.

With slowing consumer spending, the company will have added difficulties with its expansion to the U.S., which has proven to be a very risky move even in the best of times.

Aritzia (TSX:ATZ) stock is 17% higher than its 2016 IPO price of $16 and 80% higher than year-ago lows, as the stock continues its volatile ride.

The company achieved same-store sales growth of 10.9% in the latest quarter, with a 22.2% increase in net income, as the retailer opened two new stores and expanded two existing stores.

Results continue to look good, but the macro environment makes me leery of luxury retailers.

Indigo Books and Music (TSX:IDG) offers a more diversified business than the other retailers discussed here, and as such, I am more positive on Indigo stock.

Management's goal is to position Indigo as the department store of the future, and given the shake-up in the Canadian retail industry, we can see that there is demand for something different.

With newly renovated stores continuing to deliver double-digit same-store sales growth, and continued strong online growth, the company is capturing market share at a feverish pace.

The retailer's U.S. expansion is moving forward, with the first store open in New Jersey.

This presents a big risk but also big potential return, and given that the company is moving slowly with this expansion, the hope is that the risk is kept to a minimum.

CATEGORY

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2. TSX:ATZ (Aritzia Inc.)
3. TSX:GOOS (Canada Goose)
4. TSX:IDG (Indigo Books & Music)
5. TSX:ROOT (Roots Corporation)

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