3 High-Risk Stocks to Steer Clear of ….. for Now

Description

Market momentum has turned decidedly bearish, as investors take stocks of the many risks that are threatening stocks today.

Assuming the market will maintain this negative momentum for the short-term at least, here are three stocks to stay away from.

Stocks that have rallied big over the last couple of years because of solid fundamentals and solid performance by management teams. But all this has led to expectations that had become so elevated that valuations became high on an absolute basis but also on a relative basis.

Canada Goose Holdings Inc. (TSX:GOOS)(NYSE:GOOS)

Bucking the trend, Canada Goose stock is trading 151% higher compared to a year ago, as the company has defied the odds and continues to post solid results.

Canada Goose stock hit another high on November 16, closing at $92.18 in what I believe to be the beginning of sharp downside in the stock.

Because it is trading at sky high valuations of 70 times this year's expected earnings that are unsustainable in my view, especially given an increasingly nervous investor, 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 upward of $800 for their Canada Goose jackets, but going forward, key risks remain.

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

Shopify Inc. (TSX:SHOP)(NYSE:SHOP)

Shopify stock is down 22% from its highs of the summer, as the expectation of rising interest rates impact a stock's valuation, because in a discounted cash flow analysis, the denominator (interest rate) rises, thus reducing the present value of the stock.

And stocks like Shopify, which are valuing cash flows far out into the distance, will see an even bigger impact.

While Shopify is definitely in a business of the future, fundamentals really need to play catch up to the stock price, as Shopify stock is one of those stocks that have benefitted from investor expectations and excitement over and above fundamentals.

Kinaxis Inc. (TSX:KXS), the $1.7 billion market capitalization tech company that has been a high-flyer since its IPO in 2014, returning more than 400% for investors over this time period.

The Ottawa-based developer of cloud-based supply chain management solutions has gained market acceptance and market share, more than doubling its revenue since 2014 and achieving a compound annual growth rate in revenue of 22% over this period.

In the last year, Kinaxis stock is pretty much flat despite continued double-digit revenue growth, continued free cash flow generation, and a strong balance sheet.

The latest quarter was disappointing, and Kinaxis stock plummeted almost 20% off of these results.

It didn't help that the stock was trading at almost 100 times this year's earnings, but as a growth stock and in the context of a risk taking market, these things are to be expected as investors bid up the stock price.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:GOOS (Canada Goose)
4. TSX:KXS (Kinaxis Inc.)
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