Investors: Are These 2 Retail Stocks the Next to Plummet?

Description

Elevated consumer debt, rising interest rates, falling housing prices and stock markets.

These are all trends that are alive and well today, trends that serve to reduce consumers' disposable income and feeling of wealth, thereby ultimately reducing consumer spending.

Given this backdrop, should investors bother investing in retail stocks or should they steer clear of them altogether?

Well, I've written about defensive names that I believe will do well, and also other differentiated retailers that have a broad product offering that are well positioned, but essentially I would be wary of retail stocks.

Here are two that I would especially stay away from, as they might be the next to fall hard.

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

Bucking the trend, Canada Goose stock is trading 112% higher compared to a year ago, as the company has continued to post solid results.

But Canada Goose stock hit another high on November 16, closing at $92.18 in what I believe will prove to be the beginning of sharp downside in the stock, which is now trading 8.5% from that high.

As Canada Goose stock is trading at sky high valuations of 67 times this year's expected earnings and 53 times 2020 earnings. And although current earnings EPS growth rates are over 50% and have been adjusted upwards after the company's latest results, the risks are mounting, and this valuation will not be forgiving, as we have seen many examples of when growth rates slow and/or disappoint.

So if you are of the view, as I am, that consumers will be reigning in their spending, Canada Goose, as a premium retailer selling premium-priced merchandise trading at lofty valuations, will suffer.

These multiples are not sustainable in my view, given an increasingly nervous investor, a weakening consumer spending environment and the company's increased investments in China.

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

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.

Aritzia Inc. (TSX:ATZ) stock is 13% higher than its 2016 IPO price of $16.00, and 43% higher versus last year as the stock continues its volatile ride.

The company achieved same-store sales growth of 10.9% in the latest quarter, the first quarter of fiscal 2019, 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 apparel retailers are notoriously risky and vulnerable to shifts in the latest fads and competition, and trading at a mid-20's P/E multiple, this stock is not one I would buy right now.

Also, the macro environment makes me leery of premium, luxury retailers, so I would stay away from this one.

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