



Warning: These 3 Stocks Could Plummet in 2019

Description

Shorting stocks is a hard business. I wouldn't recommend it for anyone, especially retail investors.

There are several challenges when betting against a company. First of all, the market tends to go up over time, and a rising tide tends to lift all boats. Many investors think betting against stocks with high valuations is a winning strategy, but it often doesn't work. There's nothing stopping an overvalued company from becoming even more expensive.

Professional short-sellers use their celebrity to their advantage, often generating a lot of press questioning their latest target. Retail investors don't have that advantage. And besides, one of the dirty secrets of these professionals is many of the issues raised quietly fade away. Wild accusations are made that are never proven.

Despite saying all this, I still think there are advantages to thinking like a short-seller. This will help protect an investor from downside. It's impossible to predict what stock the big naysayers will go after next, but we can make an educated guess based on examining past picks.

Here are three stocks that could be attacked by short-sellers in 2019.

goeasy

goeasy ([TSX:GSY](#)) has been one of the **TSX Composite Index's** top growth stories over the past few years, as the retailer with a large emphasis on financing has evolved into a full-blown finance company. The company's major product, an unsecured loan for anywhere from \$1,000 to approximately \$10,000, has proven popular as governments have cracked down on more expensive short-term financing options.

But critics have long said goeasy's loans and their +45% interest rates are still a pretty terrible deal for consumers. Besides high rates, customers are also pushed into purchasing add-ons like an insurance policy that kicks in if the borrower loses their job or is unable to work. Some argue this optional insurance is pressured onto unsuspecting customers, which can then push the total cost of the loan

past the legal limit.

Then there are default numbers. A company making risky loans to folks with poor credit is always going to have elevated write-offs. If the economy takes a turn south and more customers stop making payments, this will ultimately drive the stock lower.

IGM Financial

IGM Financial ([TSX:IGM](#)), the parent of Investors Group, could get hit in a few different directions in 2019.

We all know about how exchange-traded funds are rocking the mutual fund industry. We could see that trend accelerate further this year, especially when investors check out their statements and see that 2018 was a lousy year for many mutual funds. This will give some investors the kick in the pants needed to switch to better alternatives.

This trend, combined with lower markets, should send IGM's assets under management lower, which is one of the key trends investors look for. Weak assets under management will translate into a poorly performing stock.

Finally, IGM pays most of its earnings out in the form of dividends. If earnings fall, there's a chance the dividend gets cut as well — a move that will cause income investors to sell the stock and ask questions later.

Bombardier

Bombardier ([TSX:BBD.B](#)) needs to turn things around in 2019 or the company could be facing some major problems with its debt load come 2020 and beyond. The company currently owes creditors some US\$9 billion versus a market cap of approximately \$5 billion. This needs to be paid down.

The problem is, the company just can't generate the cash needed to make a dent in its liabilities. Management has taken steps, like selling non-core divisions, but the Bombardier story comes down to cash flow. If debt holders think there's no ability for the company to pay back any of its loans, the company simply won't be able to refinance when existing loans come due.

Even whispers of this can cause the equity to fall in a big hurry. Remember, the stock would be worthless in a debt restructuring, and the assets would go to the bondholders. No stockholder wants to be stuck owning shares if bankruptcy is even a possibility.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)
2. TSX:GSY (goeasy Ltd.)
3. TSX:IGM (IGM Financial Inc.)

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