These 2 Stocks Are Not a Bargain: Avoid Them at All Costs

Description

Investors occasionally stumble upon stocks that are trading far below their intrinsic value. Such securities are the holy grail of stock investing; they can be stashed in your portfolio while you reap the benefits for years. Not all cheap stocks are worth the trouble, however. Today, I bring you two cheap stocks that I believe ought to be avoided, at least for the time being.

Roots

It has now been over a year since **Roots** (TSX:ROOT) went public. Since then, the stock market has not been kind to the Toronto-based retailer. The company's stock is currently trading at about a third of its IPO (at the time of writing). It would be simple to point to global stock markets — which did not perform well last year — to explain this performance. But Roots's lagging financial results aren't helping either.

Roots's latest earnings report was less than impressive. The company's third-quarter results saw year-over-year decreases in total sales, gross profit, and adjusted net income of 3%, 2.7%, and 51.3%, respectively. Roots's largest segment in terms of sales and revenue is its Direct to Consumer (DTC) segment, which represents sales made to customers either through retail stores or through e-commerce. Roots's DTC sales decreased by 8.4% compared to last year's third quarter.

While Roots's partners and others segment (wholesale of Roots's branded products) saw increases in sales and gross profit, this segment still makes up a small percentage of the company's total sales. Roots will not significantly improve its market position unless it manages to improve its DTC operations. There lies one of the problems for Roots. The entire retail sector has seen its landscape compromised due to the rise of e-commerce giants.

The e-commerce industry will keep absorbing a notable share of the retail market. Of course, retailers are adapting to this change by increasing their e-commerce offerings. But the combination of the competitive nature of the industry, the challenge posed by e-commerce, and Roots's recent sub-par financial results lead me to believe the future is bleak for the company.

BlackBerry

It wasn't that long ago **BlackBerry** (TSX:BB)(NYSE:BB) sold some of the most popular cell phones on the market. A decade is practically an eternity in the world of technology, though, and a lot has happened since the late 2000s when BlackBerry was still one of the best-selling smartphones. This industry is now dominated by a few companies, and BlackBerry cannot hope to compete with them. That is why the company decided to reinvent itself.

BlackBerry's focus is now in the enterprise software and cybersecurity business. Despite this sector also being highly competitive, BlackBerry has managed to put its foot in the door. BlackBerry provides security for mobile devices. Though BlackBerry's decision to switch to a new business model was the only way for the company to survive, jumping aboard this ship at this point would be a very risky bet. Of course, the business of investing in stocks is inherently risky, but so far, BlackBerry has shown few signs that it can successfully steer the company back to its former glory.

BlackBerry's latest earnings report showed signs of growth. The company's total revenue remained constant, but software and service revenue increased by about 8% year over year. BlackBerry also recorded a net loss at this point during the previous fiscal year, which it managed to turn into a net profit this time around. The acquisition of **Cylance** — a machine learning and artificial intelligence company — will likely help the company boost revenues and profits. Despite these new developments, BlackBerry still hasn't shown enough by way of progress, in my opinion. Thus, despite BlackBerry's stock being very cheap at the moment, I do not believe it is worth the risk.

The bottom line

Nothing is certain in the stock market. Things can often change very quickly. As things stand, however, Roots and BlackBerry do not look like particularly promising prospects. I would, therefore, avoid these stocks for the foreseeable future.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:ROOT (Roots Corporation)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/06/29
Date Created
2019/01/26
Author
pbakiny