
# Investors Beware! Stay Away From These 2 Retail Stocks

## Description

Last week, there was a news headline talking about how many Canadians are on the brink of insolvency in a tide that is rising and approaching an inflection point.

Is it a house of cards?

Maybe.

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The report out last week highlighted the fact that almost half of Canadians are $200 or less away from not being able to meet their monthly obligations.

And although the benchmark interest rate has stalled at 1.75%, it is a pretty widely held belief that they need to go higher over time.

So, where does that leave Canadians?

Well, it leaves them with some hard choices, and the first obvious choice that will be made is to cut “unnecessary” and “extravagant” spending.

It’s a choice that I think more Canadians will be making as a result of rising interest rates, slowing economic growth, weaker housing prices, and an increasingly volatile stock market.

Here are two stocks to stay away from in this environment and one stock that should be added on weakness.

## Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS)

With Canada Goose, one cannot really argue with the company’s operational and financial performance since its IPO in 2017.

2018 revenue increased 43%, EBITDA increased more than 80%, and EPS more than doubled, reflecting strong demand, strong execution, and solid management of its growth story.

But here we are sitting with a stock that is trading at over 50 times next year's consensus EPS expectations, and this makes me nervous.

This valuation doesn't leave room for mistakes, and it certainly doesn't leave room for a deteriorating macro environment.

I would stay on the sidelines, as the downside risk is too big with Canada Goose stock.

## Aritzia (TSX:ATZ)

Aritzia stock is now only 5% higher than its 2016 IPO price of $16, 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.

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Results continue to look good, but apparel retailers are notoriously risky and vulnerable to shifts in the latest fads and competition. Trading at a mid-20s P/E multiple, this stock is not one I would buy right now.

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

## Canadian Tire (TSX:CTC.A)

Canadian Tire stock offers a healthy and growing dividend of $4.15 per share and a dividend yield of 2.8%

With one of the most recognizable brand names, a long history, and $13.5 billion in revenue, Canadian Tire has an unrivaled position in the Canadian retail industry.

It offers a diversification that is unmatched by Canadian retailers and will therefore be less affected by a downturn in consumer spending.

## Final thoughts

The macro environment is setting up to be one that does not favour highly valued luxury retailers and calls for a return to the basics — a return to large, diversified retailers that offer the more essential goods.

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1. Dividend Stocks

2. Investing

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1. NYSE:GOOS (Canada Goose)
2. TSX:ATZ (Aritzia Inc.)
3. TSX:CTC.A (Canadian Tire Corporation, Limited)
4. TSX:GOOS (Canada Goose)

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