Attention: You Need to Sell This Stock Before it Plunges

Description

Remember the **Dollarama** (TSX:DOL) saga of 2018?

The investor darling was trading at lofty multiples and trending higher and higher with seemingly no thought by investors that this is a retailer, and retailers are highly cyclical stocks.

And then just a whiff of cracks in the company's business was enough to send Dollarama stock plummeting 44% from its 2018 highs. And although the stock has since recovered a bit, it is still down over 30% from those highs.

In this article, I would like to talk about **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS), drawing some parallels to Dollarama. I'll conclude it is the time to sell GOOS stock, taking your profits before they get obliterated.

While Canada Goose stock continues to fare well, with a 21% year-to-date return and a 42% one-year return, I believe that the risks to owning this stock far outweigh the rewards.

In other words, the downside risk is far greater than the upside potential.

I would like to start with valuation, because this can make or break a stock.

And in Canada Goose's case, it breaks it.

Trading at 58 times this year's consensus earnings estimates and 45 times next year's, Canada Goose stock is vulnerable to any setback, big or small, because expectations baked into the stock are so high.

If you are a momentum investor, you are likely comfortable with these types of multiples. And up until now, you have clearly made a handsome gain on your investment.

But going forward, macro-economic risks are real, and you may therefore want to rethink owning stocks such as Canada Goose.

Consumer debt loads are high, economic growth is slowing, housing prices are falling, and the stock market is increasingly volatile. The effect of all of these factors is that consumers will cut spending. And what spending goes first? It will be spending on luxury, higher-priced items, such as Canada Goose apparel.

On a company-specific level, Canada Goose is pretty highly concentrated in its product offering, with over 90% of it coming from outerwear. And although this has been a highly profitable strategy for the company, this lack of diversification may cause problems going forward in a more difficult environment.

Apparel retailers are notoriously risky and vulnerable to shifts in fads and trends. For investors who would like retail exposure, a stock like **Canadian Tire** (TSX:CTC.A) is a better bet.

Canadian Tire offers a healthy and growing dividend of $4.15 per share and a dividend yield of 2.73%

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 diversification that is unmatched by Canadian retailers, and it trades at attractive valuations.

CATEGORY

1. Investing

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

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