Warning: Sell This Retail Stock Before it Plunges Further

Description

This week, U.S. retail sales were released, and they gave investors reason to be nervous. December sales fell 1.2%, significantly worse than expected and the biggest plunge in nine years.

At the same time this week, **Canada Goose Holdings** (TSX:GOOS)(NYSE:GOOS) reported its third-quarter fiscal 2019 results that highlighted why investors love this retail stock. Revenue increased 50%, and EPS increased 66%, driven by an increase in sales due to five new stores, the launch of a new e-commerce site, and increasing gross margins.

But this is a classic case of what happens when a stock is priced for perfection.

On the day of the release, Canada Goose stock fell by approximately 13%, as investors reacted to lower-than-expected margin improvements and as it became clear that investors' expectations baked into the stock were very high.

Before this fall, the stock was trading at almost 60 times earnings, and this left it vulnerable to any setback, big or small.

It is now trading at approximately 54 times this year's expected earnings — still high, even considering the earnings-growth rates that the company has historically achieved.

I don't believe that this multiple accurately reflects the risks inherent in this stock. We have seen that U.S. retail sales are slowing dramatically, retail sales in Canada are weakening, and consumers continue to feel the weight of heavy debt loads, volatile markets, and weakening housing prices.

What is important is the future growth that Canada Goose will achieve, and, in my view, the estimates out there are at risk.

Being a luxury retailer, which leaves it especially vulnerable to a slowdown in consumer spending, and a retailer that lacks product diversification, this stock makes me nervous — no matter how impressed I am with the company's past results.

Also, apparel retailers like Canada Goose are notoriously risky and vulnerable to shifts in fads and trends. What is the must-have jacket of today is the jacket to hide in the back of your closet the next day.

A retail stock that I have more confidence in considering everything is defensive **Metro** (TSX:MRU).

It is a dividend-paying stock with a dividend yield of 1.64%, a one-year return of 21%, and positive investor sentiment that is firing on all cylinders, delivering solid earnings and dividend growth.

Final thoughts

Even after this sharp drop in Canada Goose stock, it is still too expensive considering the fact that earnings estimates are at risk due to a weakening retail and consumer spending outlook.

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