Caution Ahead: Concerning Trends That Are Screaming Sell Signals

Description

Are you looking for an investment portfolio that can survive the ups and downs of the market?

With the **TSX/S&P Composite Index** posting record year-to-date returns, investors may have been lulled into a sense of calm. But after a difficult end to 2018, where the sentiment was bad due to the strong probability that interest rates would be rising, 2019 has brushed this off, as it looks like rates will stay low.

And while interest rates do not seem to be heading higher anytime soon, if you are concerned about the risks in the market today, you are not alone. Credit concerns, high debt levels, and global economic weakness are all cautionary trends.

So, what are we to do in our search for investment returns?

While we can't be completely immune to market moves, we can set ourselves up with those stocks that have less downside and stocks that are more defensive in nature.

Let's look at two stocks that I think have big downside.

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) reported its third-quarter fiscal 2019 results, which highlighted why investors love this 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 seems clear that investor 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 56 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 and retail sales in Canada are weakening, and consumers continue to feel the weight of heavy debt loads, volatile markets, and weakening housing prices.

In a story that has seen overly optimistic earnings estimates come down dramatically, **Roots** (TSX:ROOT) stock has been hit hard, trading well below its IPO price of $12 — more than 60% lower in fact.

I do not view valuation as attractive on Roots stock, although it is quite low at 13 times earnings.

Because the challenges remain, and with second-quarter and now third-quarter results that have come in below expectations, the future is unclear.

Same-store sales growth of 1.1% in the second quarter and negative 3.4% in the third quarter clearly show us that this story has not played out, as investment analysts had forecasted at the time of the IPO.

And with slowing consumer spending, the company will have added difficulties with its expansion to the U.S., which has proven to be a very risky move, even in the best of times.

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