Investor Beware: 2 Sell-Worthy Dividend Stocks That Could Leave a Dent in Your Retirement Fund

Description

Buy the dip: it sounds easy to do on paper, but in actuality, it's one of the toughest strategies to implement effectively when you consider the number of value traps disguised as opportunities to pay a dime to get a dollar.

Oftentimes, seemingly cheap stocks are cheap for very good reasons, and although it seems like you're getting a stock that's priced at a whopping discount to its intrinsic value, you may actually be severely overpaying for a "wounded" company that's lost the major advantages (i.e., the existence of a moat) it may have possessed in the past.

Believe it or not, stocks that seem cheap based on traditional valuation metrics like the P/E ratio may be subject to a high degree of margin expansion in the years ahead. Like unwanted merchandise thrown into the bargain bin at big-box retailers, such "marked down" merchandise may not be worthy of picking up in spite of its cheapness. Why? You could be taking home a company with excessive amounts of baggage without knowing it, or, goodness forbid, a piece of damaged merchandise, which, unlike tangible bargain-bin items, is not refundable.

That's right, there are no refunds on stock market losses, so when it comes to your search, low P/E or P/B multiples are no excuse for lacking due diligence. They're not always indicative of a margin of safety, and if you're looking at a stock that's off over 50% from its high, there's no reason why the stock under question couldn't halve again.

Without further ado, consider the following three stocks that look cheap on paper but may be severely overvalued, considering the added baggage that you're getting.

Cineplex (TSX:CGX)

If you're a long-time Fool follower, you may remember my numerous pieces published in the spring of 2017 warning investors that Cineplex was a severely overvalued stock that was due for a big crash. I'd noted several headwinds that I thought the company would struggle to deal with, and once the proof was eventually shown to be in the pudding, Cineplex shareholders got clobbered, and they took another hit to the chin if they decided it'd be a good idea to average down on the first sharp drop.

Looking back, it's probably easy to see that Cineplex was a disaster waiting to happen. The stock traded at over 30 times trailing earnings, and with video streamers winning the content war, it seemed like Cineplex was poised to experience a massive deterioration to its earnings and significant margin expansion.

Today, with the stock trading at 20 times trailing earnings, the stock is still priced with growth in mind. And with no signs of pain at the box office subsiding anytime soon, I expect Cineplex stock will keep falling until the box office bleed subsides. The 7.13% dividend, while safe on paper, doesn't look reliable over the long term — not with the current rate of box office decay.

The way I see it, Cineplex is dead money, and it doesn't matter how cheap the stock looks.

IGM Financial (TSX:IGM)

The non-bank wealth manager has been under considerable pressure over the last few years. The stock has fallen so far from glory such that shares now yield 6.8%. Although the company's new focus on high-net-worth clientele may relieve some near-term pressures, I ultimately believe that IGM will continue to fall from glory, as Canadians continue to gravitate towards lower-cost, do-it-yourself investing models.

Gone are the days of +2% MERs, and here to stay are the days of low or no-fee ETFs and various other AI or quant-based instruments that are growing more popular by the day.

In short, Canadians are smartening up. They're educating themselves, and I believe that's closing a window of opportunity for the non-bank wealth managers of the past. Financial literacy and taking command of your own finances is becoming sexier by the day, and that's a trend that I think will continue as FinTech continues to take off.

While IGM's parent company has shown an ability to adapt with the acquisition of such firms as Wealthsimple, I ultimately believe that the company will be forced play in an arena with far more fiercer companies that'll easily steal IGM's lunch money.

Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)
2. TSX:IGM (IGM Financial Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing
3. Stocks for Beginners

Date
2025/07/21
Date Created
2019/03/15
Author
joefrenette