3 Icky Stocks I Wouldn’t Touch With a Barge Pole!

Description

Sometimes a stock is to be avoided no matter how cheap it becomes.

Businesses with massive long-term headwinds that have been caught on the wrong side of secular movements are often cheap stocks that are destined to become even cheaper. And to the dismay of many bottom feeders, such “cheap” valuations are not exactly what you’d call cheap when you weigh the price you’re paying for what you’re getting.

The new “cheap” valuations are, more often than not, the new normal, as the stock under question looks to face multiple expansion that comes with deteriorating fundamentals.

Consider the following three “icky” stocks that, while seemingly “cheap,” may be headed for further downside.

Cineplex (TSX:CGX)

The box office keeps going bust thanks to the continued rise of the “stay-at-home” economy and the continued strengthening of video streamers.

There’s a content war going on right now, with big-league tech players going after major directors and producers. And the way I see it, Cineplex is a casualty of this war as fewer “must-see” productions go towards a theatrical release.

Lower bums in seats mean lower concession sales and Cineplex’s main business ends up crumbling like a paper bag, as the stock has over the past few years.

The company’s diversification efforts into “amusements” have been encouraging, but with the box office segment still calling the shots over the medium term, I fail to see how the stock is still worthy of a 20 times trailing earnings multiple.

The 7.2% dividend yield is safe, but I’d much rather the company slash it and use the funds to get back on the growth track. While I do like the longer-term diversification story, I hate the current valuation, as it makes no sense given Cineplex will need to go through hell before it gets to where it wants to be with its non-box-office business.

Power Corporation of Canada (TSX:POW)

Power has been on a big run since the depths of December. Despite this, I still think the stock is a dud that should be eliminated from the portfolios of prudent investors. While the 4.8% is incredibly attractive to the income savvy, I'm not a fan of the mixed bag that you're getting with Power.

The diversified holding company owns some pretty solid assets, but it also owns some weak ones, and, if you ask me, I'd say the company is far too bloated to deliver decent results over the long haul.

The company is the epitome of diseconomies of scale, and until the company is gutted of its lower-return businesses, some of which are on the wrong side of a secular trend (wealth management), I'd advise investors to take a pass on the stock and its seemingly attractive 11.5 times trailing earnings multiple.

The stock looks cheap, but it's dead money.

Magna International (TSX:MG)(NYSE:MGA)

Have we reached peak auto? Is the question that's on the mind of many investors.

If we are, Magna could end up being a colossal clunker for your portfolio. The stock, which currently trades at 7.75 times trailing earnings, is cheap, but it's cheap for a reason. Come the next recession, investors could find themselves waiting years, if not decades, for a full recovery of shares from what could be a catastrophic implosion.

As tensions brew again between the U.S. and Canada, we could see the auto part makers like Magna fall into a tailspin, as we slowly fall into a recession that could wipe out well over half of Magna's value.

While a recession may not be in the cards over the next few years, such a hyper-cyclical name is not a good way to grow or preserve wealth, because like it or not, we're likely in the late stages of the current market cycle.

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3. TSX:MG (Magna International Inc.)

4. TSX:POW (Power Corporation of Canada)

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