This Leading Media and Entertainment Company's Shares Are up 221% Since September: Why it's Time You Sold Them

Description

Shares in **Corus Entertainment** (TSX:CJR.B) have gained an incredible 221% since last September on back of stronger-than-expected consecutive quarterly performances that surpassed analyst expectations.

Things were looking pretty hit and miss for Corus and its shareholders as recently as a few months ago, but a string of stronger-than-expected quarterly results has reversed momentum in the company's stock; **Bank of Nova Scotia** recently raised its rating on the CJR shares to "sector outperform" and increased its target price on the stock to $8.40 per share.

Maybe Bank of Nova Scotia and others are right in this case and I'm wrong, but in this post I'll do my best to play devil's advocate and point out a couple of logical reasons why Corus shareholders may want to consider moving out of their position in the company.

Gambler's fallacy

We all know the rush of adrenaline that hits us when things are going great.

We start to get the feeling that "we simply can't lose" and even start to forget that inevitably, things will balance themselves out.

"The house-money effect" looks at this aspect of human behaviour; investors often take on greater risks when reinvesting their profits from the market than they otherwise would take with earned wages.

Not only does the house-money effect suggest that investors tend take on more than appropriate levels of risk, it also suggests a certain "overconfidence" that can creep into an investor's psyche following a couple of big — and even unexpected — wins.

In this respect, it's wise to keep in mind exactly how bleak the outlook for Corus was just six months ago coming off the company's worst financial performance in more than 10 years and a 36% cut to its dividend.

Things are good; I just don’t know how great they are…

Granted, the company has been able to stave off continued declines in revenues and profits through the first six months of the new fiscal year thanks to investments in content and digital advertising channels.

Corus has also been able to pay off more than $117 million in bank loans through the first six months of 2019, but investors will want to keep in mind at the same time that it still owes more than $1.7 billion of long-term debt on its balance sheet.

The currently bloated state of Corus’s balance sheet, which also includes more than $1.3 billion of goodwill and over $2.5 billion in intangible assets, is more than likely going to hamstring the company as it seeks to reinvest in the growth of its business.

Foolish bottom line

To make it clear, I’m not here to say it’s “curtains” on Corus stock just yet, but those who have been fortunate enough to ride this latest wave may want to at least consider lightening the load somewhat, locking in some of the recent gains.

Even in a scenario where CJR stock experienced a minor pullback to its 50-day moving average line would represent a close to 20% mark-to-market loss from where the shares closed trading last week.

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