



Warning: A Losing Stock That I'd Rid My TFSA of

Description

Don't say you weren't warned!

Magna International ([TSX:MG](#))([NYSE:MGA](#)), the Canadian auto part maker and value trap that I've slammed on numerous occasions in the past, just dropped like a stone following the release of its recent earnings report. Shares have plummeted 11.5% in the two trading sessions that followed.

Given the stock commanded a ridiculously low single-digit P/E and shares have been picking up momentum since January, I imagine that many new investors got hurt by backing up the truck on Magna stock. The extremely cyclical automotive supplier seemed like a steal on the surface, but only when you have a look under the hood do you begin to see that the seemingly attractive value stock may actually be a clunker.

Now, I've been a very harsh critic of Magna stock over the past several years, referring to the name as everything from "a toxic value trap" to "an icky stock I wouldn't touch with a barge pole" with the hopes of warning new value investors of the seemingly "too-good-to-be-true" valuation metrics and the potential downside risks.

Fellow Fool contributor Brian Pacampara recently [alerted Foolish readers](#) that Magna had recently been slapped with a downgrade by an analyst named Kevin Chiang from CIBC World Markets and noted that the auto part maker was "looking rusty."

Chiang stated that Magna had the "least attractive risk/reward profile" compared to other players in the space. Moreover, Chiang wasn't at all a fan of the auto sector due to "headwinds in Europe and China."

Chiang and I were on the same page. And even after the double-digit percentage pullback in Magna shares following the sub-par earnings report that came "fully loaded" with a lowered profit guidance, I still don't think the stock is cheap given the high risks involved.

The peak auto cycle is on the minds of many investors. It's not just the decreasing demand for vehicles in these late stages of the market cycle that should be a cause for worry though. I think vehicle ownership as we know it is in secular decline.

"We're entering an era in which the average person won't be a vehicle owner. Autonomous vehicles (AV) are the future. These vehicles will be shared, as it will become uneconomical for the average person to own their vehicles." [I said in a prior piece](#).

"UBS predicts that by 2035, urban car ownership will fall by 70%. That's a long-term headwind that'll obliterate Magna, but it's through no fault of management. Rather, Magna will become a victim of technological innovation."

Add the near-term headwinds that Chiang noted in his recent downgrade into the equation, and I think the stage is set for a more pain over at Magna. At this juncture, it's tough to gauge how much the stock should be worth when you consider how devastating the headwinds could be. As such, I'd continue to steer clear of Magna.

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