



2 Overvalued TSX Index Stocks to Sell

Description

As the S&P 500 approaches its ceiling of resistance, it's time to take a step back and consider taking a bit of profit off the table as everybody else becomes greedy again. Not much has changed since the last time we reached these heights, so without further ado, here are two frothy stocks that I'd encourage investors to sell.

IGM Financial

Of the two stocks mentioned in this piece, **IGM Financial** ([TSX:IGM](#)) is the only stock that I'd sell and remove the name from my watch list permanently. It's also the only name that's not technically overvalued by traditional valuation metrics, as the stock seems "cheap" at just 11.7 times forward earnings and 2.1 times book.

When you consider the company is a pure wealth and asset management play and the fact that the firm sells actively managed high-fee mutual funds, which are in secular decline with lower-cost options becoming more readily available by the year, it becomes more apparent that the low valuation comes with its fair share of baggage.

For 11.7 times next year's expected earnings, I think you could get so much more. And given non-bank wealth managers are more vulnerable to the movement of wealth from active to passive investment management and DIY investing, I'd say IGM deserves to trade at a much wider discount than it's already trading at.

The name has rallied around 23% from its December depths; it's still down approximately 35% from its all-time highs. Over the last five years, revenues have grown at a weak 3% per year. Although revenues may prop up over the near term thanks to IGM's re-branding efforts, I think that ultimately industry trends will prevail, and IGM will continue to feel the squeeze. With that in mind, I wouldn't bite on the 6% dividend yield, even though it's safe.

Shopify

Up next, we have red-hot **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)), a wonderful business whose stock has gone parabolic. While I believe Shopify's innovation is worth paying a pretty penny for, I hesitate to recommend chasing a name that's just recently skyrocketed like a [marijuana stock](#).

At the time of writing, Shopify stock is up 160% from its December lows, and while the rally could continue strong into year-end, it would be unwise to not lock in at least a bit of profit after such a run.

The stock trades at 28.5 times sales (that's sales, not earnings) and 16.5 times book. That's really expensive, and I don't care how "promising" the company has been performing of late. The bar is set high, and a double-digit decline could be in the cards if the next quarter ends up being a bump in the road.

If you doubled up in Shopify, I'd take at least a quarter position off the table with the intention of putting it back to work after shares fall back to the \$300 levels. Yes, the first quarter was a game changer, but I have a feeling that the momentum will exaggerate the other way once the tides finally turn, and that's exactly when I'd [pounce](#).

Stay hungry. Stay Foolish.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:IGM (IGM Financial Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

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

Category

1. Investing
2. Tech Stocks

Date

2025/07/21

Date Created

2019/06/27

Author

joefrenette

default watermark

default watermark