Warning: 2 Overbought TSX Stocks I Wouldn’t Touch With a 10-Foot Pole

Description

As the **TSX i**ndex flirts with all-time highs, it’s important to keep your greed levels in check if you’re at all thinking like you could be missing out on what could be another market melt-up.

The markets have been on a tremendous run in the first half of the year and while the TSX index could be on the verge of a breakout, now is as good a time as any to cut the froth off your portfolio with some of the overbought names which appear to be overextended on the upside.

Without further ado, consider **Shopify** (TSX:SHOP)(NYSE:SHOP), and **Gildan Activewear** (TSX:GIL)(NYSE:GIL), two overbought and likely overvalued stocks that you may want to trim now or at some point over the coming weeks.

Shopify

This stock is officially red-hot with shares more than doubling over the past few months. Although it’s justifiable to pay up for a hyper-growth stock, I find shares today are far too hot to handle for long-term investors who have no desire to trade.

The small- and medium-sized business market is growing at a staggering rate, revenue and merchant subscription revenue grew over 50% as of the last quarter, and big-name stars have embraced the platform as their platform of choice.

Analysts have high expectations moving forward and should Shopify drop the ball only slightly, or even outperform by just the slightest of margins, a huge chunk of the 2019 gains could be surrendered at the drop of a hat.

My concern with Shopify is purely valuation. While shares will never trade at a level where value investors would consider it “cheap,” I do think a stock trading at around 30 times sales is beyond absurd. In the past, I noted that Shopify was the most expensive Canadian stock outside the crazy world of marijuana.

Gildan Activewear

Gildan is a manufacturer of basic articles of clothing like tees, sport shirts, fleeces, and the like. The company recently broke out past its long-term period of consolidation, and although Gildan appears to be headed in the right direction, I do fear that the narrow moat firm is at risk of experiencing margin erosion thanks to rising levels of competition.

Gildan's cost advantage is the source of the company's narrow moat, but the advantage should really be seen as a double-edged sword. One could argue that Gildan has no more room to improve on this front and as private-label brands continue to pick up traction, I think Gildan is at high risk of moat erosion as the business of basic articles of clothing becomes further commoditized at the international level.

While Gildan shares aren't as absurdly expensive as Shopify, it's still priced as a growth stock at around 20 times forward earnings. Given the industry-wide headwinds and the limited room to improve upon gross margins, I'd say Gildan is at risk of falling below $40 over the coming months.

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