These Top Stocks May Be in Trouble Next Year

Description

Popular stocks are often well-known for a reason. Unfortunately, this often "crowds the trade," which essentially means you have to pay a premium to own these stocks.

Premiums can be worth it, but reduce your room for error. One misstep could erase the premium and more, leading to big losses fast.

If you own the following top stocks—or even any related stocks—you'll want to pay close attention.

Banks aren't ready

Bank of Nova Scotia (TSX:BNS)(NYSE:BNS) is one of the largest companies in Canada. Founded in 1832, it now has nearly 90,000 employees.

Since 2000, the stock has more than tripled and currently sports a dividend yield of 5.1%. While many long-term investors are still piling into the stock, one famous prognosticator is sounding the warning bells.

You may have heard of Steven Eisman—he's the main character of Michael Lewis's popular book *The Big Short*, which was subsequently made into a movie starring Brad Pitt, Christian Bale, Steve Carell, and Ryan Gosling.

The reason Eisman is so famous is because those that followed his investment advice in 2007 and 2008 made *billions* of dollars in a matter of weeks.

In the years leading up the financial crisis, Eisman had been warning that complex mortgage derivatives were about to explode. This time, he's warning that Canadian banks like Bank of Nova Scotia could be on the brink of a sharp correction.

"Canada has not had a credit cycle in a few decades," he told *Bloomberg*. "I don't think there's a Canadian bank CEO that knows what a credit cycle really looks like."

If the Canadian economy falters even just a bit, he believes there could be a quick 20% in downside or more.

Priced for perfection

Shopify Inc (TSX:SHOP)(NYSE:SHOP) is yet another stock market darling priced for perfection. Shares are valued at a whopping 26.2 times forward sales.

The company earned this premium given its history of success. Over the past six years, revenues have grown by more than 60% per year and annual top-line growth is expected to remain above 30% for years to come.

There's one problem: the future isn't the past. For nearly its entire operating history, Shopify has competed only against itself.

When it comes to e-commerce platforms, Shopify is clearly light years ahead of its competitors, allowing it to take market share nearly every quarter while growing the market at large.

Starting next year, the company could face stiff competition. **Facebook**, **Square**, and **Microsoft** have all signaled their intent to move into Shopify's verticals.

Those three companies alone represent nearly $2 trillion in market value, enough to put plenty of pressure on $50 billion Shopify.

Can't run forever

Baytex Energy Corp. (TSX:BTE)(NYSE:BTE) has been a turnaround candidate since 2016. The company does have some decent assets, but it's becoming clear that it won't be able to outrun its biggest foe: $2 billion in long-term debt.

In addition to some other liabilities, the company has debt totaling around $2.5 billion. Compare that to its $1 billion market cap and you'll quickly understand why Baytex is in trouble.

The company is currently spending more than $20 million per quarter to service its debt. That's more than the past four quarters of operating income combined.

The company says it can be free cash flow positive above US$50 per barrel, but it's not clear that it will be able to grow or even sustain its current output at those levels.

The true breakeven level, including the replacement of lost production, may be closer to US$60 per barrel. Given the current pricing environment, things should get worse for Baytex before they get better.

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:BNS (Bank Of Nova Scotia)
4. TSX:BTE (Baytex Energy Corp.)
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