2 Cheap Stocks to Avoid Today

Description

Contrarian investors often buy troubled stocks on the hopes that a strong recovery might be just around the corner.

The strategy can certainly deliver big gains, especially when the companies have reliable revenue streams and generate adequate free cash flow to cover dividends.

However, some cheap stocks are punished for a reason, and while short-term spikes on rumours or news can deliver quick profits for traders, investors with a buy-and-hold strategy often get burned trying to catch a falling knife.

Let's take a look at two popular stocks that might be too risky to buy today, despite appearing very cheap.

CannTrust

CannTrust Holdings (TSX:TRST)(NYSE:CTST) is one of a number of high-profile cannabis producers that have run into regulatory or corporate governance trouble in the past year.

The company apparently grew plants in non-licensed facilities and hid the crop from Health Canada inspectors. The agency found out about the situation and is conducting ongoing investigations. As a result, CannTrust has halted all sales of its product and is now evaluating its survival options.

The stock is down to $3 per share from $13 in April. Recent volatility has seen it jump as much as 40% in a single day, but the uncertainty around the possible sale of the company puts investors at a significant risk. The likely outcome would be a sale of the assets of the business, leaving the liability risks with the shareholders.

CannTrust might get a break from Health Canada and simply receive a fine. However, there is also a chance the agency will take a hard line on the company to set an example for the rest of the industry. As such, investors should probably avoid the stock.

Bombardier

Bombardier (TSX:BBD.B) is running out of assets to sell to try to get its expenses down and reduce debt. The company sold a majority stake in its troubled CSeries program to Airbus last year. It also unloaded its Dash 8 turboprop group and recently announced the sale of its CRJ business. That ends Bombardier's era in the commercial jet space, leaving the private jet program as the remaining aerospace division.

The rail group has its own share of problems, and while Bombardier says it is making progress on its turnaround efforts, time might be running out. The company continues to burn through cash at an alarming rate, and its US$9 billion debt weighs heavily on the balance sheet.

A quick look at the long-term stock chart should be enough to steer investors away. Bombardier traded for more than $20 per share 19 years ago. Today the stock is below $2.

The bottom line

CannTrust and Bombardier could eventually recover, but the risks probably outweighs the potential rewards.

Other oversold stocks in the market are likely more attractive right now.

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