TFSA Investors: 3 Stocks To Avoid Like The Plague

Description

Several factors could cause a company's stock price to drop – for example, unfavorable news, industry weakness, a credit downgrade or poor performance. Some would see this as an opportunity to buy. But if you're a TFSA investor, be wary: something must be ailing a poorly performing stock.

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Bonterra (TSX:BNE), **Canadian Banc** (TSX:BK), and **SNC-Lavalin** (TSX:SNC) are not great investments at the moment. You might be taking on too much risk even if the stocks are trading at deep discounts.

Danger signals

Bonterra is an upstream oil and gas company that produces and sells crude oil, natural gas, and natural gas liquids. The small-cap company is focused mainly on the development of its Cardium zone in west-central Alberta, specifically in the Pembina and Willesden Green areas.

A year ago, the dividend stock was a high flyer. The price then was $18.19. But it has sunk to $4.27 as of this writing – a horrific drop of 326%. Bonterra has fallen from grace because of danger signals.

Dividend investors are avoiding the stock because of the declining earnings per share and an unpleasantly high 175% payout ratio. This combination is frightening. The dividend yield also shrank to 2.76% and a further cut is looming.

Shunned stock

Canadian Banc is a mutual fund company that invests in the public equity markets of Canada. Quadravest Capital Management manages the fund whose portfolio is focused on the banking sector.

This asset management firm's main objective is to create enhanced yield products for retail investors. Canadian Banc benchmarks the performance of its portfolio against the S&P TSX Financial Index. The stock offers a hefty 11.66% dividend yield.

The portfolio basket comprises shares of six publicly traded Canadian Banks, namely **Bank of Montreal**, **Canadian Imperial Bank of Commerce**, **National Bank of Canada**, **Royal Bank of Canada**, **Bank of Nova Scotia** and **Toronto-Dominion Bank**.

Despite its high-quality portfolio, the stock hasn't attracted investors. The very lean trading volume indicates the market's lack of interest in Canadian Banc.

Investors seldom express dismay over a particular stock. Usually they simply sell and cut their losses when the stock is falling. When it recovers and rebounds, buyers return to gain from the potential upside. But when the company has, repeatedly, been suspected of anomalous dealings, then hate sets in.

Fractured image

SNC-Lavalin was a well-loved stock in 2018 before becoming the most-hated stock this year. Investors dumped the shares of this $3.12 billion engineering and construction company due to charges of fraud and corruption. The company was alleged to have offered bribes to secure contracts.

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The market is unforgiving when a company has integrity issues. SNC-Lavalin's image was shattered and investors ditched the stock. Shares are down 60.96% in the year-to-date and have yet to recover from the painful episode.

Although SNC-Lavalin is a known dividend stock, you might be investing in a value trap. Even institutional investors are already pulling out.

Steer clear

You should steer clear of stocks when red flags are flying. At the first sign of trouble, smart TFSA investors won't risk their money.

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