TFSA Investors: Approach These 2 Luxury Brand Stocks With Caution!

Description

Fears continue to persist among investors that our economy may be at risk of heading into a recession owing to a confluence of risks that have arisen over the past eight months, including ongoing trade negotiations, unrest in the Middle East, uncertainty concerning the eventual Brexit, and, more recently, heightened political tensions in Hong Kong.

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That doesn't mean there's reason to panic; there are still plenty of high-quality companies out there that are available at attractive prices.

Truth be told, Foolish investors ought to be using this latest spell of market uncertainty to be averaging down and investing for the long term.

Yet with markets around the world mostly flat over the past year or so, there is some chance that the stocks of luxury brand companies could be at more risk.

Higher-income-earning households tend to get a greater share of their incomes from passive investments like the stock market, meaning that when the stock market isn't generating its typical 10% or more annual returns, these companies tend to be at higher risk of seeing a downturn in their sales.

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) is one of those types of luxury brands that investors may want to be careful with over the next couple of months.

GOOS caught fire with the smash-hit popularity of its down-filled winter parkas and has thus far jumped all over the opportunity, expanding into new international markets while building a more diverse product line, including more seasonally appropriate outerwear for the warmer months.

Yet despite delivering 59.1% sales growth in the first quarter, it's still not profitable, losing $29.4 million during the quarter, or $0.27 per basic and diluted share.

That's a larger net loss than what the company had posted a year ago.

While management is still reaffirming the full-year guidance that it laid out at the start of the year, that's going to make the back half of 2019 especially important. If the economy ends up going into a recession, and consumer spending takes a hit as a result, that could prove disastrous for GOOS and the company's shareholders.

Another company that could find itself in trouble later this year is Italian luxury car manufacturer **Ferrari**, which was spun off from **Fiat Chrysler Automobiles** in January 2016.

For my money, I tend to favour investments in more defensively natured companies, like, for example, **Alimentation Couche-Tard,** the owner of the Circle K and Couche-Tard chain of convenience stores and gas bars, which has quietly become Canada's second-largest company by reported revenues.

Or, for those in search of current streams of dividend income, shares of a company like **Suncor Energy** or even **Brookfield Renewable Partners** could be a good bet.

Suncor, currently the largest operator within the Canadian oil sands, has a 4.46% annual dividend following a 16.6% hike earlier this year.

Meanwhile, BEP is not bad in its own right, currently yielding 5.33% with plans to raise its payout by mid- to high single digits over each of the next couple of years.

Foolish bottom line

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Hopefully, GOOS and its management team will be able to weather the threat of this storm that may be looming on the horizon.

But until we get more clarity on what the next couple of months are going to look like, I think I'd lean towards something offering a little more stability for the time being.

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