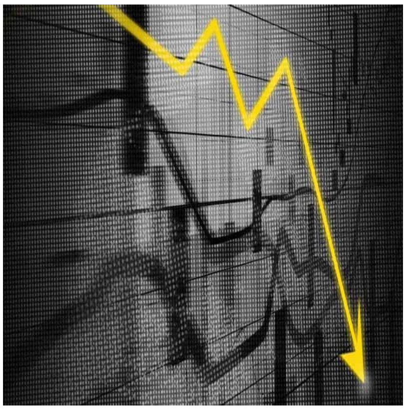

TFSA Investors: Did Amazon (NASDAQ:AMZN) Kill Bookstore Stocks?

Description

Until **Amazon** (NASDAQ:AMZN) and high-speed internet access, **Indigo Books and Music** (TSX:IDG) was everyone's favourite bookstore and gathering location for book clubs. Today, it is difficult to excite investors over brick-and-mortar retail stores. With the advent of 5G, now is notably not the right time to bet on traditional retail in the stock market.

5G will transform society as a whole — creating a more digitized world with more significant implications on data privacy rights and concerns about Big Brother governments. If bookstores continue to suffer as a result of technological transformations like 5G, traditional book lovers may find themselves forced to switch from hardcover to tablet.

Bookstore stocks like Indigo Books and Music have lost over 50% of their value in the past 12 months.

Is Indigo Books and Music headed toward penny-stock status?

Not only do traditional bookstores struggle with cost competitiveness against Amazon; bookstores also don't boast streamlined inventory management options. Amazon, however, allows authors to self-publish books through its web platform.

It is officially no longer feasible for booksellers to operate in a traditional capacity. Return on equity for Indigo Books and Music is now a negative 12.83%. Earnings per share (EPS) is a humble negative 1.48.

Eventually, Indigo Books and Music may face the same fate as **Macy's** and **JCPenny**, two traditional retail brands now trading for under $1 per share.

Will Indigo Books and Music bounce back?

Alternatively, Indigo Books and Music may rebound much like **Barnes & Noble** has this past year. Barnes & Noble's stock price has appreciated over 20% in the past year. Like Indigo, Barnes & Noble is a famous bookstore offering book clubs and other events for traditional book lovers.

The difference is that while Barnes & Noble's annual dividend yield is almost 10% at its current rebound price of $6.49, Indigo Books offers no dividend. Savvy investors will be hard-pressed to buy Indigo Books and Music Stock given the low risk-adjusted returns.

If Indigo Books and Music looks at Barnes and Noble's digital strategy to complement its brick-and-mortar retail brand, Indigo may be able to rebound. Barnes and Noble currently offer shareholders a return on equity of positive 0.88% — an impressive achievement for a retail chain.

The U.S. bookstore chain even reported a positive diluted EPS of $0.05 per share for its third fiscal quarter of 2019. Much of Barnes and Noble's success hinges on its Nook tablet and e-book options. These digital options allow the traditional retail brand to compete with Amazon's cost margins and streamlined inventory system.

Amazon's weakness?

Amazon has a substantial intellectual property problem. Many aspiring writers have been too creative in editing books still protected under copyright. Although Amazon is a leader in machine learning and technology, the company still can't find a way to prevent copyright infringements through its self-publishing application.

This won't stop Amazon from killing these popular gathering places for book signings and discussions on the latest *New York Times* Bestsellers. TFSA investors beware: Don't bet on retail unless the stock offers a hefty dividend to compensate your portfolio for the additional risk.

CATEGORY

1. Dividend Stocks
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