3 Popular Stocks That Are Significantly Overvalued

Description

Even with a recession coming closer and closer, there are still some stocks out there that are at a share price well beyond what analysts would deem reasonable. These stocks have soared over the last while, and have yet to really come back down to fair value. Yet there they are, continuing to attract investors despite their high prices.

But let's really think about three of these stocks. Is there some kind of method to the madness? Or are investors simply letting their emotions get the better of them – buying these stocks because they are worried they'll miss the boat?

Let's take a look.

Shopify

It looked like **Shopify Inc.** (TSX:SHOP)(NYSE:SHOP) was heading downward over the last few weeks after an incredible run last month in which shares reached about $545. But investors started worrying not only about the tech industry and the recession, but about how Shopify specifically would fair, given that the company has never dealt with a recession before.

That seems to have shaken some investors, but not all. The share price as of writing still sits at just over $400 per share, after falling to about $388 last week. It looks like some investors thought that dip was a bargain buying opportunity, but many analysts don't agree.

The company has a fair value around $225 per share, so if the analysts are right, Shopify still has a long way to drop.

If it does get close to that number, however, I would recommend buying up this stock. Shopify has solid performance and this recent drop isn't due to anything the company has done. It's more that a recession might bring investors back down to reality, and set Shopify back on its path upward – but maybe at a slower pace.

Cargojet

Airline company **Cargojet Inc.** (TSX:CJT) has been doing incredibly well over the last few years. It should continue to do well, given that it's focused on shipping and not recreational flights. The company has also been growing rapidly through acquisitions, which has increased its revenue by an significant amount.

Then there are the partnerships – a recent one with **Amazon** sent shares skyrocketing. While Cargojet's sales are already stable, the company stands to have a serious increase through this partnership. Here's the issue. Once the dust settles, Cargojet could become dependent on sales from Amazon, and, during a recession when people are purchasing less, this could seriously hurt the company.

So when the excitement passes, Cargojet could still come down quite a bit. Not Shopify-bad, but definitely back into a normal territory where the regular investor might consider purchasing this company again if it continues its current strategy.

Fairfax

The main issue with **Fairfax Financial Holdings Ltd.** (TSX:FFH) is its management and whether you trust them to make the right decisions. On the one hand, Fairfax has been incredibly successful with its investment choices for its clients, proving that even during a downturn the company can generate huge returns. However, those investment choices were also aggressive, so Fairfax might not be the right choice for the regular investor.

Before an economic downturn, investors often start slowly edging away from aggressive (or risky) investments, and that leaves a company like Fairfax vulnerable to a dip. If the company's plans don't follow through, investors could be left shorthanded. But again, to this point Fairfax's strategy has been working, so who can really be the judge?

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:CJT (Cargojet Inc.)
3. TSX:FFH (Fairfax Financial Holdings Limited)
4. TSX:SHOP (Shopify Inc.)

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