



3 Dangerous Stocks to Sell Immediately — Before the Market Crashes

Description

There's been a lot of talk lately about a [possible recession](#) and what investors should do when the inevitable comes.

Pundits have all sorts of wild suggestions on how to protect your money, including what I view to be the most outlandish of all — selling all your stocks and keeping your portfolio in ultra-conservative investments like government bonds, GICs, and cash.

I advocate a different approach, however. Rather than punting great companies from your portfolio, look to sell some that are overvalued or others that are poised to weaken when the economy hits the skids. Once you've eliminated those problem areas, leave the rest be.

And remember, you won't be dinged for any taxes if you make these trades inside your TFSA. This makes taking a more conservative view downright painless.

Here are three companies I would look at selling immediately if I owned them — the kinds of names that will suffer during the next recession.

Shopify

Now before any of the bulls get too excited, let me heap piles of praise onto **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and CEO Tobias Lütke. The company has done a masterful job commanding a very lucrative part of the online shopping market.

Rather than selling stuff, the company helps entrepreneurs run their websites, process payments, and manage inventory, among a million other things. If you're a serious online retailer, you're likely powered by Shopify's software.

There's just one problem. When a recession hits, Shopify will get nailed. Twice.

First of all, its shares are incredibly overvalued. That's a natural by-product of changing the world.

Investors are excited, and rightfully so. Shares have been bid up to the stratosphere as a result. Shares trade hands at nearly 28 times sales. No, not profit. Sales. I'm as bullish as the next guy long-term, but that's an expensive valuation.

Not only will Shopify shares drop on valuation concerns during a downturn, but the company will get hit because its customers will experience weakness as well. That's a pretty dreaded double whammy — one you'll want to avoid if you have a significant portion of your assets invested in the Ottawa-based tech giant.

Constellation Software

Constellation Software ([TSX:CSU](#)) has taken a slightly different path to dominate its sector. The company is a serial acquirer of software companies, gobbling up more than 250 names since 1995. Bears have been saying for years the pace of acquisitions will likely start to slow, but CEO Mark Leonard and his team keep finding opportunities.

In fact, I believe Leonard will be able to get better deals during the next recession. He'll be in a great position to put some serious cash to work. Economic turmoil could very well be a great thing for long-term shareholders.

The problem is that these folks will likely have to endure some short-term pain. Constellation is a [huge winner](#) for most of its shareholders, making it an ideal candidate to get punted from a portfolio to raise cash.

The stock is also quite expensive, trading at more than 50 times trailing earnings. Yes, the stock is less expensive when looking at it from a price-to-free cash flow basis, but nobody will argue that it's cheap. That might not matter today, but I suspect it will when the economy is looking extra bleak.

Air Canada

The bear thesis is pretty simple for **Air Canada** ([TSX:AC](#)) during the next economic downturn. Airlines are incredibly cyclical with huge operating leverage. Those variables add up to massive gains when the economy is expanding. The opposite happens when the economy is contracting.

Business travel is one of the first things cut when times get tough. Vacations are also paused as nervous consumers put cash reserved for holidays into their emergency funds or towards paying down debt. And as so many of Air Canada's expenses are fixed, just a small downturn can turn the profitable airliner into one that posts big losses.

The ironic thing is Air Canada — on the surface, anyway — looks well poised to weather a recession. The company's balance sheet is pretty strong. Overall travel demand is booming, and shares trade at a mere 7.7 times trailing earnings. None of this will matter once investors start getting bearish on the name, however.

CATEGORY

1. Investing
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TICKERS GLOBAL

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2. TSX:AC (Air Canada)
3. TSX:CSU (Constellation Software Inc.)
4. TSX:SHOP (Shopify Inc.)

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