If You're Worried About a Market Crash, Here Are 2 Industries to Avoid

Description

Just as there are certain sectors you can invest in, such as defensive industries, to protect your money during market downturns, there are certain industries to avoid at all costs.

These industries are almost always the hardest hit when the market is tanking, as investors pull their money in anticipation of a contracting economy.

The fear is that these economically sensitive industries will be hit hard as the velocity of money slows down, so investors try to get ahead of the issues, which causes these stocks to underperform in a crashing market.

One of the worst hit industries in recessions is almost always the industrial sector.

Industrials

Industrials consist of a lot of sub sectors, but the main construction and manufacturing industries are always affected by a recession and so consequently when the stock market is tanking, these stocks are heavily impacted.

During a recession the economy contracts and demand for many goods, especially manufacturing goods, is negatively impacted. This makes manufacturing companies one of the worst performers in a down market.

An example of a stock you may want to watch closely is **Magna International Inc** (TSX:MG)(NYSE:MGA).

Magna is a global company that is one of the world's largest auto parts manufacturers.

Its stock is already trading for pretty fair value, but investors should be aware this could be a value trap as its operations would likely be impacted in a recession, which is why its stock is already so cheap.

Its price to earnings ratio at just 6.5 times make it look somewhat attractive, but this is based on trailing performance, and doesn’t reflect its future returns.

The industry is highly competitive and costs can be volatile, so predicting future earnings is not so straight forward. It’s also highly capital intensive which could leave the company exposed if there was to be a sudden decline in volume demanded.

While Magna is not a bad company, the impact a recession may have on its business is still a large unknown, so it’s better to avoid it until there is more certainty in the market.

Another industry for investors to avoid is the consumer discretionary sector.

Consumer discretionary

Consumer discretionary stocks are always an industry to avoid because of the natural reduction in spending that comes with recessions.

Consumption makes up the majority of our GDP, so when consumers slow their consumption in poor economic times, it will always hurt the companies selling discretionary items.

One company to specifically watch in the consumer discretionary sector is **Canada Goose Holdings Inc** (TSX:GOOS)(NYSE:GOOS).

Canada Goose is a high growth stock so if its growth was to be impacted, its stock would certainly be affected.

The trouble with Canada Goose is although it’s been growing its international revenue, the concern is that global growth is what is going to slow, and since Canada Goose sells premium items, it’s highly likely its sales will be impacted.

In recessions, luxury goods are the first thing to be cut from consumers spending, and Canada Goose’s apparel is at the top end of the premium range.

This is especially true in industries such as apparel, which are extremely competitive; there are a number of inferior substitutes for consumers to choose.

Currently, it’s trading at a price to earnings ratio of more than 42 times, leaving it vulnerable to a decrease in business over the short term, if the economy was to contract.

Bottom line

Even high-quality stocks that are in highly cyclical industries should be avoided, as there are a number of better opportunities for investors in the short term.

Knowing which industries and stocks to avoid ahead of a market down turn is key and can save investors a ton of money in the long term.

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