WARNING: 2 “Dead Money” Stocks Heading Downhill Fast!

Description

Buying on dips without putting in the proper amount of homework could be hazardous to your wealth. While the thought of being able to purchase something at a fraction of last month’s price is enticing through the eyes of value investors, there are many instances where violent stock declines are warranted.

This piece will look at three overvalued, broken stocks that look like compelling short-sells heading into 2020.

Gildan Activewear

Gildan Activewear (TSX:GIL)(NYSE:GIL) plunged 26% on Friday on some abysmal third-quarter results that saw EPS numbers flop 7% on a year-over-year basis to go with weak guidance that’s now calling for low-single-digit sales numbers for the year. Analysts were quick to lower Gildan’s price target, and investors fled for the exits at the market open.

Back in July, when shares were around $53, I warned Foolish readers that Gildan was an overvalued stock that was at high risk of falling below $40. It’s a stock I wouldn’t touch with a 10-foot pole, I said.

My original warning seemed alarmist, and my $40 price target appeared far-fetched at the time, but after Friday’s single-day decline, Gildan now trades at $34 and change. And I have a feeling that more pain could be on the horizon as competitive pressures continue to weigh on Gildan’s narrowing moat.

“*Gildan’s cost advantage is the source of the company’s narrow moat, but the advantage should really be seen as a double-edged sword*,” I said in a prior piece.

“*One could argue that Gildan has no more room to improve on this front and as private-label brands continue to pick up traction, I think Gildan is at high risk of moat erosion as the business of basic articles of clothing becomes further commoditized at the international level*.”

At the time of my original warning, I noted that the stock was priced with high growth expectations in mind at around 20 times forward earnings. Now that shares have plunged, shares still aren't exactly what you'd consider cheap.

The stock trades at just under 16 times trailing earnings, which isn't a price I'd pay for a firm that's growing its top-line by low-single-digits and a moat that will likely fully erode in a few years time.

Gildan investors can't say they weren't warned.

Power Corporation of Canada

Power Corporation of Canada (TSX:POW) is a perennial underperformer that doesn't have a lot going for it. The 5.3% yield is undoubtedly the main attraction to the multinational diversified holding company, but what many hasty income investors may not know is that Power Corp. serves as a prime example of dis-economies of scale.

A few years ago, activist investor Graeme Roustan was looking to break-up the inefficient conglomerate to unlock value for long-term shareholders.

Unfortunately, the break-up is a long shot and with various subsidiaries continuing to underperform, including **IGM Financial**, which is facing massive long-term challenges (high-margin active mutual funds are out, lower-margin wealth management services are in), I don't see Power delivering satisfactory total returns for its investors over the next five years.

Sure, the stock looks cheap at 11 times trailing earnings, but it's cheap for a very good reason. And in the coming months, I think the stock could become even cheaper as investors wake up to the better investment options out there.

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