Investors: 3 Nasty Stocks I Wouldn't Touch With a 10-Foot Pole

Description

Investors spend a lot of time trying to maximize returns. We'll scour balance sheets and income statements, looking in the footnotes of financial statements for any small edge we can get.

Unfortunately, that might not be the optimal strategy.

Think of investing like golf. When hitting the links, I get in trouble when I go for the gusto. It all goes wrong when I try to carry a 200-yard water hazard with a breeze in my face. The ball hits the water, I take a penalty stroke, and the next thing you know, I'm scrambling for a double bogey.

In other words, it's the mistakes that get you down in golf. And the same thing happens in investing.

If you lose 50% of your capital chasing a bad investment idea, you've got to double the remaining amount just to break even. That's not an easy task. If you lose 75% on a poor stock choice, you've got to double your money three times just to get back to your initial capital.

With that in mind, let's check out three stocks I think will cause investors to lose a lot of money in the next three to five years. These are potential investment mistakes you'll want to avoid.

Shaw Communications

Shaw Communications (TSX:SJR.B)(NYSE:SJR) is at a crossroads. Its mobile phone division, Freedom Mobile, is growing like a weed. Freedom is expanding to new cities all the time, which is helping it steal customers away from incumbent wireless providers. But that growth is offset by Shaw's legacy wireline assets, which are slowly shrinking.

Shaw's cable and satellite TV divisions are being decimated by thousands of Canadians who are choosing to go without that expensive monthly obligation. This trend could easily increase over the short term as new streaming services enter the market.

While Shaw's pursuit of a new growth market is laudable, there are a couple problems with the strategy. The investor base is largely income investors attracted to Shaw's dividend. But this expansion will take cash, which could go as far as leading to a dividend cut. The other issue is the company's operating margins from the wireless division aren't great, since it's undercutting competition.

With no real mandate to give investors, I predict Shaw shares will continue to struggle.

IGM Financial

The traditional business of financial advisors selling expensive mutual funds is dying, and **IGM Financial** (TSX:IGM) will feel the impact hard.

The company's Investor's Group subsidiary is trying tactics to avoid its inevitable fate — including switching its marketing focus from retail clients to folks with more money — but it's too little, too late. Assets will continue to leave the firm in search of lower fees.

The birth of robo-advisors, firms that can manage a portfolio of cheap exchange traded funds for clients at a reasonable fee, will prove to be the final nail in the coffin.

It's only a matter of time until IGM's assets under management start falling in a big way. When that happens, you won't want to be anywhere hear this stock — even if it does pay a generous 6% yield.

Baytex Energy

Baytex Energy (TSX:BTE)(NYSE:BTE) owns some interesting assets, particularly its exposure to the Eagle Ford oil formation in Texas. This low-cost oil has continued to provide steady cash flow for a company that desperately needed it during the worst of the oil crisis.

Unfortunately for Baytex, there are a few things that look likely to keep the company down over the short-to-medium term. The first is the general oil market, which doesn't look like it'll improve anytime soon. We're awash in oil. Even supply shocks in the Middle East only have a temporary impact on prices. I'm also not bullish on Baytex's heavy oil exposure in Alberta, a region that looks like it'll be plagued with transportation issues for years to come.

And finally, Baytex owes a lot of debt — more than $2 billion worth in total — with some important deadlines coming up. It has US$400 million worth of long-term debt coming due in 2021 as well as $875 million in revolving credit facilities coming due that same year.

Can Baytex raise the capital needed to pay off these debts? If not, shareholders are not going to like the outcome.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. NYSE:SJR (Shaw Communications Inc.)

2. TSX:BTE (Baytex Energy Corp.)
3. TSX:IGM (IGM Financial Inc.)
4. TSX:SJR.B (Shaw Communications)

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