Why Deep Value Investors Should Avoid These 3 Dangerous Stocks

Description

Searching for deep value in today's stock market can be an interesting exercise. Equities have continued to hover around all-time highs in North America, creating what I think of as two distinct markets right now for investors: proven bull market "winners"/growth plays, and deep value stocks lacking momentum.

Inevitably, when the tide does turn and we witness the next market downturn, some of these deep value stocks will rebound and take advantage of renewed strength in the bottom of the market as investors seek to get out of the growth story stocks that have dominated this past decade.

That said, value traps always exist, so here's my take on three stocks that could definitely be classified as value traps in my book.

Baytex Energy

The Canadian oil space — or really almost any commodity space — is a difficult place to invest these days. **Baytex Energy** (TSX:BTE)(NYSE:BTE) has been on my radar for some time, partly because the stock's share price chart is truly incredible.

The company has lost more than 96% of its value in a five-year span and has continued to drop consistently. I've pointed out a number of reasons for this marked decline in the past, but the leading cause for concern remains the company's elevated debt load of approximately $2 billion.

The interest payments the company makes far exceeds the free cash flow of the company, and the portfolio of quality assets available to sell at a reasonable price is limited.

The only way this company rebounds is through a sustained, long-term commodity price rebound, which I don't see as likely to materialize in the medium term, putting this company at risk of insolvency in the medium term.

Corus Entertainment

The reality is, in some ways I still think **Corus Entertainment Inc.** (TSX:CJR.B) could find avenues for survival in the years to come, with a different business model (I do believe content will be king in the media space, and owning rights/royalties on specific programming could provide long-term sustainability).

That said, the company is indeed operating in an industry which is under massive pressure from new technologies that seek to change the way we consume content.

Traditional television programming is not a place I would want to be as a conservative long-term investor, so unless you're in it for the quick wins (hey, my buy recommendation in July 2018 turned out okay), I'd steer clear of this company as a part of your buy-and-hold portfolio.

Cineplex

My take on **Cineplex Inc.** (TSX:CGX) is that this is a company which has fairly good fundamentals at this point, but is also operating within the constructs of a broad-based secular decline, making the long-term prospects for investment in the theatre chain a no-go for investors like myself.

Again, quick wins on overly bullish earnings reports are likely to materialize, as everyone likes a good story, but over the long-haul I don't see any reason why this stock should soar back to 2017 levels.

Thus far, this has been a dead money stock for any investor that held for the past 10 years, a reality that can't be understated.

For traders willing to bet on volatility around earnings, I'd suggest a strangle strategy to take advantage of volatility on both ends of the spectrum. For any other conservative long-term investor, I'd say this company is not for you.

Stay Foolish, my friends.

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2. TSX:CGX (Cineplex Inc.)
3. TSX:CJR.B (Corus Entertainment Inc.)

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