2 TSX Index Stocks to Be Leery About Buying Right Now

Description

Fluctuation is the norm in the stock market. Even companies with a history of stability show some sharp inclines and declines over the years. That said, if a stock is underperforming for several consecutive years, it might not be a good pick for your investment portfolio.

This downward trend is why investors should be wary of **Encana** (TSX:ECA)(NYSE:ECA) and **HEXO** (TSX:HEXO)(NYSE:HEXO), two stocks that are very cheap right now.

Savvy investors are always looking to buy the dip, especially in companies that are expected to grow and help investors expand their capital gains. But when you look around for cheap stocks to buy, it's crucial to pick the ones that won't slide down even more in a few years.

Shifting the roots

Encana is one of the oldest and formerly one of the largest natural gas producers in the country before 2013. The company is rooted deep in Alberta and has been around for well over a century.

Its impressive history is why the news of the company shifting its headquarter to the U.S. saddened the community. While Encana hasn't been the only one to make that move, it's one of the major players.

The company defends this move with the argument that it will have access to better investments in the country. Encana also expects to rise above the petroleum and gas problems that have plagued the country recently. The company is also shedding its old Canada-centric name in favour of a newer name: Ovintiv.

Existing investors will be getting one common share of the new company for five common shares of Encana. Maybe it's the anticipation, but the company is trading at the monthly high $6.40 per share. That recent growth is all there is, however. The market value is down 42.5% from the same time last year and down almost 70% in the previous five years.

So even if shifting its base pays off for Encana, it's a long shot. That's why, even if the stock is dirt cheap now, investors should think long and hard before making an investment.

Green turning brown

HEXO is one of the underdogs of the cannabis industry. With a market cap of nearly $753 million, the company usually flies under the radar of most investors. That's not the only thing keeping investors at bay, however.

The company is currently trading at a yearly low of $3 per share, down 72% from the annual high.

The company's profit margin is in three-digit territory — a sad, negative 171.57%, which is the worst by far, even for the tanking cannabis industry. The diluted EPS of -0.38 is also one of the worst in the bunch. HEXO scored one of the best supply deals in Quebec, but it didn't help the company stay afloat.

Even at the dirt cheap price right now, HEXO may deserve to be seriously scrutinized by the investors.

Foolish takeaway

Certainly, taking risks is part of being an investor, but tempering that risk with caution is the mark of a value investor. If you want to broaden your portfolio and are looking for some cheap stocks that you can buy into, you may want to remove Encana and HEXO from your list of considerations.

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Author
adamothman