
TFSA Investors: 1 Canadian Stock I Would Avoid in a Recession

### Description

Over the last few months, broader indexes have continued to rise higher and are trading at record highs. The bull run has now extended to the next decade, and investor optimism is far from subdued. However, as we do a deep dive into the macro-economic scenario, one can see that all is not well. There are concerns over a slowing global economy.



Emerging markets, including India and China, are in the midst of a slowdown. The industrial and manufacturing indicators for Europe and North America also point to a contraction in the economy. There is the expected fall out from Brexit, and one cannot forget that the yield curve inverted fewer than six months back. The inverted yield curve has been preceded a recession by 12 to 24 months for the last five decades.

So, how do you play the markets with a downturn on the horizon? Well, it is close to impossible for investors to time the markets. While they can look to invest in stocks with low cyclicality (think utilities and consumer staples) or with high dividend yields (think REITs), investors also need to liquidate their holdings in industries that underperform the markets.

Here we look at one such company that might lose significant value if recession fears come true.

## goeasy stock has gained 78% in the last year

Shares of Canada-based financial services company **goeasy** (TSX:GSY) has gained an impressive 78% in the last 12 months. I had first recommended the stock back in September 2019, and it has returned over 40% since then.

goeasy provides loans and leases household products to consumers. It has two business segments: easyhome and easyfinancial. The easyfinancial segment accounts for majority of sales (over 70%), while the easyhome segment generates close to 30% in revenue. The company operates close to 200 easyfinancial stores and over 180 easyhome stores in Canada.

In case Canada is hit with a recession, consumer spending and the unemployment rates will move higher. This will drastically reduce demand for consumer loans of goeasy's leasing services. goeasy provides loans to subprime borrowers at high interest rates. While this has worked exceptionally when the economy is booming, it can all go downhill very quickly.

Another cause of concern is that the company has experienced negative cash flows in three of the last five fiscal years. This might raise questions over goeasy's ability to meet debt and other obligations. goeasy has a debt balance of $846.3 million and reported an operating cash flow of -$166 million in the third quarter.

The stock has a forward dividend yield of 1.7% and a payout ratio of 24.3%, which gives the firm leeway to increase these payments in case the cash flows are positive. But the company might struggle to do so given its negative cash flows.

goeasy is a highly cyclical company. The stock went public back in 1996. It lost close to 96% in market value during the dot com bubble and fell 73% between April 2007 and December 2011 during the housing crisis. In the last eight years, goeasy stock has returned a staggering 1,200%. However, we have seen here the stock can be considered a risky bet as we near the end of the current economic cycle.

**CATEGORY**

1. Bank Stocks
2. Investing



**TICKERS GLOBAL**

1. TSX:GSY (goeasy Ltd.)

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araghunath