Now Is NOT the Time to Buy These 2 Stocks on the Dip

Description

Just like that, and the **Dow Jones Industrial Average** is now down nearly 8% from its highs, while the TSX Index is off around 4.5%. While the pullback was a long time coming, you may want to hold off from getting too greedy, as we're hardly in oversold territory (especially with stocks on this side of the border!). If you've only got so much cash to put to work, you may want to steer clear of some of the most vulnerable names whose declines could be the tip of the iceberg.

Investors are running scared over what could be a global pandemic with disastrous consequences for the global economy. Not to scare you or anything, but this is a black swan event that could spark the recession that we're long overdue for.

While I'd never suggest making drastic changes to your portfolio, unless you were improperly diversified to begin with, I would urge investors to mitigate inherent risks that could leave one vulnerable to amplified downside in a worst-case scenario.

Without further ado, consider **Air Canada** (TSX:AC)(TSX:AC.B) and **Spin Master** (TSX:TOY) — two ailing stocks that could fall into a tailspin.

Air Canada

Air Canada has taken the brunt of the damage over the last few weeks, as concerns over the viral outbreak have mounted. The coronavirus (COVID-19) isn't just a Chinese concern anymore, as a CDC official warned Americans that the U.S. is at risk of continued spread. As one of the main vectors for the transmission of viral infections, airlines are among the riskiest of businesses to own at this juncture.

In a prior piece, I'd cautioned investors from buying Air Canada on the dip on the coronavirus-driven decline, calling it one of my top stocks to avoid back in January. At the time, Air Canada stock had taken a small step back from its all-time high levels, but I'd warned that the stock was still expensive relative to historical averages and the new slate of risks that I thought were being severely discounted by investors.

If you took my advice, I saved you from a nearly 25% pullback. And while shares are cheap at 3.3 times EV/EBITDA, they could become a heck of a lot cheaper over the coming weeks, as shares look to hold a $32 level of support (another 15% in downside).

Spin Master

Up next, we have Spin Master, a company that's been caught in a rut over a combination of self-inflicted wounds (poorly timed operational moves) and a perfect storm of unfavourable exogenous events. As the global economy continues to grind to a halt, the already soft toy industry could go from bad to worse.

Toy makers have pulled back violently, and not even Spin's innovative management team will be able to reverse a downturn that ultimately remains out of its hands. Even after the recent battering of shares, the stock still isn't exactly what you'd deem as cheap, especially given the supply chain interruptions and the growing threat of a recession.

At the time of writing, Spin trades at 19.1 times next year's expected earnings and 15.6 times cash flow. With few meaningful catalysts that can offset powerful headwinds, I'd urge investors to wait for a better entry point, which may present itself over the coming months. Spin may be a wonderful business with solid assets, but I'm not enticed by the price here given the risks that will be hard to nearly impossible to mitigate.

Foolish takeaway

Don't buy the coronavirus-driven dip.

You'll likely take a beating, as I don't think the markets have fully reflected the risks at this juncture.

We went from an expensive market to a fairly valued market at best, so think twice before trying to play the role of hero by jumping into the stocks that have taken on the most damage. They can and likely will continue to be in a world of pain, as the appetite for risk continues to fade.

Stay hungry. Stay Foolish.

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2. TSX:TOY (Spin Master)

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