TFSA Investors Beware: 3 Stocks That Could Have Further to Fall

Description

The coronavirus (COVID-19) has taken its toll on the portfolios of many TFSA investors. The vicious meltdown could also leave a long-lasting dent in the global economy that could remain well after the outbreak has been contained.

Many are in agreement that we're on the cusp of a recession, with some bears pointing to a potential global depression. In any case, TFSA investors should seek to re-balance to mitigate their risks to make sure their TFSA doesn't get wiped out.

You don't want to panic sell. But at the same time, you don't want to take on more risk than you can handle, as this bear market could start getting nasty.

Here are three Canadian stocks I'd steer clear of, as you look to prepare your portfolio for a pandemic prudently.

Magna International: A potential trap for TFSA Investors

Magna International (TSX:MG)(NYSE:MGA) has proven that it's a clunker during cyclical downturns. While cyclical downturns tend to be over prolonged periods, this coronavirus-driven crash could reduce the crash time drastically, as investors look to get out of stocks that are most vulnerable to a recession or, goodness forbid, a depression.

As you may know, anything auto-related is going to take a massive hit when the economy goes sideways — the autos themselves and the auto part makers like Magna. While 5.8 times trailing earnings may seem cheap, investors should steer clear. The value trap could become far cheaper, as it becomes more evident that we're in a steep global recession.

For an industry as cyclical as auto parts, it can take a long time to recover, and investors should expect downside of at least 75% from peak to trough. Given Magna isn't off 50% from its top yet, I'd say the stock is less than halfway to a bottom. So, watch out below, because today's low P/E multiples will mean less after the multiple expansion kicks in.

Linamar: Another ailing auto part maker

Sticking with the auto part maker theme, we have **Linamar** (TSX:LNR), the second-largest auto part manufacturer in Canada. The stock has already been in a tailspin since late 2017, and it appears as though the next leg down could be even more pronounced with the looming recession.

At 4.45 times trailing earnings, the stock looks cheap for value-conscious TFSA investors, but it isn't if we're headed for a prolonged recession. To make the Linamar story even uglier, the chart has an ominous double-top pattern that looks to imply a tonne of further downside, potentially bringing the stock to the single digits.

Recessions are not kind to auto part makers, as demonstrated by Linamar's +90% drop during the Financial Crisis. I'd urge investors to look elsewhere if they're looking to buy the dip, because if a recession is looming, the last place they want to be are the auto part makers, given their hypersensitivity to the economic cycle.

Canadian Natural Resources: TFSA investors should avoid oil

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) was a wonderfully run company. Management did everything in its power to protect shareholders from the volatile swings in the energy sector. The company had a generous capital return program and a robust integrated cash flow stream, making the name a king among men in the Albertan oil patch.

Unfortunately, it doesn't matter how great a company Canadian Natural is. It's still at the mercy of exogenous factors that influence oil prices. While the company is well suited to fare well in a low oil price environment, the recent oil price war, I believe, is far too much for even the best players in the space to handle.

The Saudi-Russia price war could turn sub-US$20 oil into the new normal. And if that's the case, CNQ could be in for a doozy, as it looks to pay off debt from the acquisition of Devon Energy's Canadian oil assets.

The 13.2%-yielding dividend has also become quite the commitment and should this hideous environment stay for longer; I fail to see how CNQ can insulate its shareholders any further. As such, TFSA investors would be wise to take a raincheck on the name.

CNQ, like so many global oil producers, is a victim of the oil price war. And with few catalysts on the horizon, I can't find a reason to own the stock here.

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