Market Crash: 2 Stocks I Wouldn't Touch With a Barge Pole

Description

The market crash has opened up many opportunities on the TSX Index. But you need to pick your spots carefully in a bear market, as they tend to last anywhere between six and 30 months. If this is your first bear market, you've got to realize that relative to historical bear markets, this one is still in its infancy.

As such, it's vital not to back up the truck on the bargains that exist today for the fear that they'll be gone tomorrow. The coronavirus could linger on through most of the year, and it's going to leave a recession behind, so investors should not seek to be a hero at this juncture with seemingly cheap cyclical stocks that could prove to be value traps.

Without further ado, here are two Canadian stocks that I wouldn't touch after the latest market crash.

Magna International

The autos are the last place you want to be when the economy goes into a tailspin. A bet on **Magna International** (TSX:MG)(NYSE:MGA) at today's levels, I believe, is a bet that the economy will be quick to recover after the coronavirus is eradicated — a bet I wouldn't make, since we're pretty much guaranteed to fall into a severe recession.

Heck, some pundits see us falling into a global depression as a result of COVID-19. As such, it's only prudent not to put yourself at the front of the lines with an economically sensitive stock amid a severe economic downturn.

Over the years, Manga has done a terrific job of mitigating risks by diversifying across various products and services. Sadly, none of this matters when you're in an industry that's as cyclical as auto parts. When times get tough, auto buyers are going to be few and far between, and the demand for auto parts could drag for years at a time.

For now, COVID-19 could stand to infect the supply chain of auto markets. And after that damage has been done, a nasty recession could linger on for the long haul. It's difficult to value Magna, given the immense headwinds on the horizon. As such, I'd avoid the stock and don't care how much "cheaper" it becomes; just because a stock is "cheap" doesn't mean it's undervalued — especially in the face of a recession that could bring forth substantial margin expansion as earnings and revenues pull back.

NFI Group

Bus maker **NFI Group** (TSX:NFI) was in a world of pain well before the pandemic gripped the stock market. The company was operating in a less-than-efficient fashion, and I previously noted that management had fumbled the ball with regards to challenges that presented themselves.

"You can't blame NFI's management team for unfavourable industry conditions. The late stages of the market cycle mean big-ticket purchases [like buses, which are durable assets] will be postponed." I said in a prior piece. "What you can blame management for is its sub-optimal dealing with operational challenges faced over the past few years."

Eventually, coach orders will bounce back when times are better. But depending on the severity of the looming recession, such orders could be postponed for many years until there's a pent-up demand. As such, I view NFI as untimely and its stock as a potential value trap, with shares currently sitting at just over nine times next year's expected earnings. The stock has already lost over 76% of its value, but don't think it can't fall much further as industry pressures weigh.

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