1 Stock I'd Be Tempted to Sell on the Market Rally

Description

Before you look to chase the recent market rally for fear of missing out on the ride back to all-time highs, now may prove to be a great time to take a bit of risk off the table by doing some selling.

Don't make any drastic share sales, but do treat one of the biggest multi-week bounces since the Great Depression as a chance to eliminate the stocks you've fallen out of love with. If your portfolio is overweight in dangerously cyclical stocks, now may be a chance to take some risk off the table in case we're headed for a retest of March's market lows.

Now is not looking like a good time to be in the super cyclicals

Consider shares of cyclical auto parts maker **Manga International** (TSX:MG)(NYSE:MGA), which could face amplified downside should the coronavirus send the **TSX Index** crashing again. Even if the coronavirus were to be eradicated (I wouldn't bet on that given epidemic expert Dr. Anthony Fauci sees the coronavirus as becoming seasonal in nature), the ensuing recession could be severe enough to severely cripple the auto industry.

It's difficult to gauge the full extent of the impact that the coronavirus will have on an auto parts maker like Magna. For investors looking to reduce risk, though, that shouldn't matter, as Magna is one of many dangerously cyclical stocks that you'd have to be a fearless hero to own, even at today's seemingly "discounted" valuations.

A cheap stock that may prove to be a value trap

While Magna is liquid enough to ride out the tough times that lie ahead, with over $4 billion in liquidity, I still think the stock could have much further to fall, as auto production volumes plummet in what I think is going to be a severe recession.

At the time of writing, Magna stock looks like one of the cheapest stocks on the TSX, with shares trading at 0.29 times sales, one times book, and 3.9 times enterprise value/EBITDA. Given substantial multiple expansion is expected, value-conscious investors shouldn't pay too much merit to the seemingly "rock-bottom" traditional valuation metrics, especially those relating to earnings. At one times book, the stock is the cheapest it's been since 2011.

Foolish takeaway

On a book basis, Magna seems pretty darn cheap. But given the likelihood that the 2020 coronavirus crisis is going to have a far more detrimental impact to the global economy than the European sovereign debt crisis, I'd argue that investors should demand a far cheaper multiple that's at least on par with valuations seen in the depths of the 2000 dot-com bust or the 2007-08 Financial Crisis, when Magna stock traded under 0.8 times book.

Even then, I still wouldn't touch the stock, as it's typically a long road to recovery for the cyclical auto parts makers, not to mention the long-lived headwind of decaying car ownership in an era of ridesharing. Magna's 4.3%-yielding dividend may be safe and tempting to collect while you wait, but given the unprecedented 35% rally off March lows, I'd urge investors to take profits before the name has a chance to lead what could be the next downward charge.

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Date
2025/08/23
Date Created
2020/04/22
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