Overvalued: 2 TSX Stocks I'd Sell Now Before a Pullback

Description

Some of the more coronavirus-resilient stocks have endured impressive runs since the crash. As most stocks crumbled, they surged above and beyond their all-time highs. The resilience of such businesses is admirable, making their stocks worthy of a premium. But I do think that investors need to consider selling some of their frothier holdings.

It may seem 'safe' to overweight your portfolio in the defensive areas of the market. But I believe many investors may be at risk of overpaying for stocks that could be at risk of selling off violently on positive news relating to a vaccine.

And no matter how long the pandemic drags on, the most defensive play in the world is not safe if it's overbought and overvalued.

Consider selling the following three overvalued stocks. I've pounded the table about all three in the past, at or around their all-time highs.

Jamieson Wellness: A wonderful business with an overbought stock

Jamieson Wellness (TSX:JWEL) is a wonderful defensive business that I've always been bullish on in the past. This is the first time I've become a bear on the name. This is not because there's anything wrong with the business or its positioning in this pandemic. Rather it's because the valuation on shares has gotten a bit too stretched for my liking.

Jamieson is benefiting from the secular health trend, and has a portfolio of products that's never been stronger. I'm reluctant to continue recommending the name after the recent 32% bounce off its March lows.

At the time of writing, JWEL stock trades at 29.6 times next year's expected earnings and 44.2 times cash flow. While I'm a firm believer that it's okay to pay up for quality, one has to draw the line somewhere. I think JWEL has passed this line after its incredible surge to new heights.

I view the overvalued stock as overdue for a pullback and would urge investors to reconsider the name should it fall below $28 or so.

Shopify: A white-hot stock that looks severely overvalued

Shopify (TSX:SHOP)(NYSE:SHOP) keeps defying the laws of gravity. It's one of the hottest stocks on the planet, and it's one of the few firms that's actually seen off-the-charts growth amid the coronavirus crisis. The stock has rocketed 160% from its March lows. Now it's at high risk of plunging below $1,000, as shares of the e-commerce kingpin look to take a much-needed breather.

Shopify has demonstrated resilience in the face of a severe recession, and the business fundamentals have never looked better. Still, with the share price at over 54 times sales, prudent investors should consider taking a bit of profit off the table. Shares could be in danger of reverting toward their mean valuation levels.

Fellow Fool contributor Mat Litalien recently warned that Shopify is overbought, overvalued, and overdue for another one its vicious crashes, and I think investors would be wise to heed his warning. Waiting for a significant dip before initiating a full position.

"Historically, the company has been highly volatile and drops of 20% or more are not unheard of. Now that the company sports a 14-day RSI of 74.78, Shopify may be due for one of its pullbacks." said Litalien. "A company doesn't stay in overbought status for long – eventually there will be downward pressure. For Shopify, sustained downward pressure usually results in double-digit losses. This is especially true given that Shopify's current price leaves little margin of safety."

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