3 Higher-Risk Stock Types to Sell Now

Description

The markets have been unexpectedly resilient during the pandemic. Yes, there was that nasty market crash back in March that echoed the Great Depression. And yes, oil prices fell off a cliff in April, briefly turning negative in a world-first. But equities have rallied in an unlikely coda to the longest-bull run in history. However, the threat to the Canadian economy in the near to mid-term is very real. Here's what to avoid.

Watch out for a real estate bubble

The housing market is never far from a risk-watcher's radar. House prices are untenable, and the current health crisis could finally force a long-building correction. While this could be welcome news to first-time buyers, homeowners who got in while prices were high could end up with negative equity. Anyone who remembers the Financial Crisis of 2008 will know just how dangerous overheated any kind of real estate can be to the markets.

Investors cautious of high-risk assets may therefore want to avoid the more speculative breed of REITs. **Slate Office REIT** is an especially hazardous play in the current market and is down 37% since this time last year. This name sits squarely at the intersection of an overheated real estate market and a comprehensively trashed brick-and-mortar office workspace environment. The wheels of industry may still be turning during the quarantine, but they are doing so online.

Toxic household debt is poisoning bank stocks

It's no secret that Canada has a high debt-to-disposable-income ratio. We carry more household debt than the U.K., the U.S., New Zealand, and Brazil. Around 15% of mortgages in this country are currently impacted by skipped or deferred payments.

Throw in a cheap money bubble and you have the perfect storm for a major correction in the banking sector. It's not inconceivable that Canadian banks could even drop around 20% next year.

As always, it's a numbers game. The weakest moneylenders will be in the most trouble. While the Big Five look fairly solid, their worst-performing name is undoubtedly **CIBC**. There's a reason why the yield is so plump on this name.

While yields are certainly attractive, they're not to be trusted in times of extreme economic stress. If Canadian banks really were to plummet by a fifth next year, CIBC shares would certainly be impacted.

Traditional energy stocks are going downhill

Notwithstanding the strong growth implications of a cost-efficient green power sector, energy stocks are tepid at best. At worst, they've become unacceptably risky. Hydrocarbon producers are becoming increasingly unpopular with investors, except for a high-risk contrarian play on value. But the long-term thesis for oil producers is weakening by the minute.

Canadian Natural Resources is down 34% this year. However, contrarian rallies have plastered over some cavernous troughs, such as last week's 10% plunge. Even clean energy names such as **Fortis** have been trading flat.

The go-to utilities name is up just 5% in the last three months, with negligible year-on-year change. Much of the blame can be placed on low power usage mid-pandemic weighing on electricity prices.

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