Will This Be the Next Hertz Stock?

Description

You would think bankruptcy would be enough to deter people from buying a stock. But that isn't the case — certainly not in these markets. Car rental company **Hertz Global Holdings** filed for bankruptcy on May 24.

And while there was an initial selloff following the news, by June 8, shares of the company were surging and were higher than before Hertz made the announcement. The company was even looking to raise additional shares before that plan fell through.

There's no sound reasoning for why shares of a company that's filed for bankruptcy would see its share price rise. It's an extremely risky company to buy shares of, and it would be a stretch to even call that investing. Speculators are the ones moving the stock and sending it on a volatile path. There's little reason to believe that shares of Hertz won't soon be worthless.

Could this TSX stock follow a similar path?

While **Cineplex Inc** (TSX:CGX) hasn't filed for bankruptcy, the company could also see a lot of volatility in the future. On June 12, Britain's Cineworld backed out of a deal to buy the Canadian entertainment company, alleging that breaches had taken place, violating the merger agreement.

Cineplex, however, claims that Cineworld's backing out of the deal due to COVID-19, likely thinking twice about the acquisition given the uncertain future ahead.

How movie theatres will operate in the coming months remains a big question mark. While cities in North America are reopening, large gatherings are still unlikely and practicing social distancing in theatres ensures even as they reopen, they won't be operating anywhere near capacity.

That makes Cineplex a particularly risky stock to own right now. Without a big merger to help add stability and the company now on its own, that could turn the stock from an investment into a speculative buy.

Focus on fundamentals, now more than ever

It's easy to get caught up amid the hype and jump on the bandwagon and buy stocks that are soaring. But for investors, this volatility in the markets, whether it's Hertz or any other stock, is a reminder of just how important it is to be grounded by a stock's fundamentals.

If a company has entered into bankruptcy and has no real hope of continuing its business, there's no substance there to invest in.

At that point, a stock ceases being a real investment. Cineplex is still investable, but the stock's also very high risk. Without the economy opening back up to where it was before the pandemic, shares of Cineplex are destined to continue falling.

The company's profit margins have generally been 5% or lower over the years. That doesn't leave a lot of room for the company to post a profit during a slow quarter, much less during a pandemic.

Cineplex is a stock that investors should stay far away from. The same goes for Hertz and any other stock that's in financial duress right now.

The markets are full of risk and investors should stick to focusing on fundamentals and not allow speculators to impact their decisions.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing

Date
2025/08/24
Date Created
2020/06/26
Author
djagielski