3 Stocks to Avoid Next Month

Description

The markets may be down as a whole, but there are some stocks dropping even amid this market rebound. The three stocks that I'm going to look at today have either hit a peak in their price or have begun to drop again. That's compared to a market that has actually risen in the last week.

With another month in quarantine upon us, I'd like to identify three stocks I see as vulnerable and better to avoid in July.

Air Canada

Let's start with the most obvious. The airline industry is changing. Even with airlines being allowed to start bringing passengers aboard again, the changes are not going to be few, and they aren't going to be around for the short term. Many have identified that the luxurious days of relaxing on an airplane could be over. Masks, protective equipment, even taking your temperature in the airport — these are all things that could be in your future if you plan on traveling.

For a company like **Air Canada** (TSX:AC), this will be huge. The company already has huge debt, with more coming on board with the coronavirus. Air Canada had a huge reinvestment strategy in the works when the coronavirus hit. Its new fleet of fuel-efficient airplanes need to be paid for. It will take years for the company just to get back on solid ground, never mind making any significant profit. So, it's unlikely the company will be hitting any record-high numbers anytime soon, and it's best to avoid for now — even if you're buying at a discounted share price.

AutoCanada

It's already been hard for the auto sales industry. In fact, it's pretty difficult at any time. Right now, a company like **AutoCanada** (TSX:ACQ) is being hit especially hard. The company already had a terrible 2019. Now its earnings have been stretched to the limit. Sales of new vehicles continue to drop, and this will likely continue for a company like AutoCanada, even after the pandemic is over.

During its latest earnings report, consolidated revenues saw a reduction of 4.1% compared to the already poor 2019 year. Adjusted EBITDA was down $5.8 million from the last year to $5.7 million. This brought its net indebtedness to $170 million by the end of the first quarter; however, the company managed to bring that down to $150 million by May 31, 2020. Car sales are likely to be down for quite some time. Until people have the cash on hand and the layoffs end, it’s unlikely a company like AutoCanada will see a surge in earnings anytime soon, so it’s far better to avoid it this month.

BRP

If car sales are bad, then recreational vehicle sales are worse. Granted, investors started to think that perhaps **BRP** (TSX:DOO)(NASDAQ:DOOO) was a good investment in the summer. People are at home, looking for ways to have fun, and so a surge in recreational vehicle sales would make sense. However, the sales are unlikely to remain stable. After the initial rush, sales will likely shrink as the summer continues. The people that can afford to buy recreational vehicle are few during the current financial situation. Most have tightened purse strings that are being tightened even further across the board. This makes luxury items like recreational vehicles quite low on the list of priorities and better to avoid until a secure rebound.

Bottom line

Granted, the stocks won’t necessarily remain down forever. All of these stocks are strong companies if you’re willing to hold onto them for a long, long, long time. However, in today’s market I find that these three stocks simply have far more risk than other companies that could see gains a lot sooner. For the month of July, at least, I would simply avoid these companies and wait for some more positive news to come that way.

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1. Coronavirus
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2. TSX:AC (Air Canada)
3. TSX:ACQ (AutoCanada Inc.)
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