2 Stocks to Avoid Like the Plague Right Now

Description

Knowing which stocks to avoid can be as important as knowing which ones to invest in. And right now, there is no shortage of overpriced stocks in the markets that are overdue for corrections. Even if the economy continues to recover, here are two stocks investors should stay far away from.

Canada Goose

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) is one of the most vulnerable stocks on the TSX right now. In its most recent quarter, sales were down 9.6% year over year. The winter apparel company is heading into its slower quarters of the year, where sales will likely be even softer, and turning a profit may prove to be even more challenging. It certainly doesn't help that Canada Goose has reported negative free cash flow in four of its last five quarters.

The company isn't worried about its cash position, however. When Canada Goose released its quarterly results on June 3, the company said it had $119.7 million in cash on hand as well as $239.4 million of undrawn revolver credit. That gives the company close to $360 million in cash that it can tap into. But even if it gets through the pandemic, it could be left with a whole lot of debt that it'll need to pay off afterwards.

And that's a scenario many Canadians may also find themselves in — paying off debt they amassed during the COVID-19 pandemic.

It's not just the pandemic and recession that create risk for Canada Goose, its exposure to China is another factor investors need to consider.

China-Canada relations aren't strong, and investors may recall that when Canadian officials arrested Huawei CFO Meng Wanzhou back in December 2018, that sent shares of Canada Goose tumbling. That situation still hasn't been resolved, and as the extradition case progresses, the threat of a boycott and further backlash against Canadian companies in China is very real should relations continue to deteriorate between the two countries.

There's a whole lot of risk investors would be taking on if they were to buy shares of Canada Goose.

Enbridge

Enbridge (TSX:ENB)(NYSE:ENB) is another high-risk stock investors will be better off avoiding. The pipeline company was already starting to see throughput on its Liquids Mainline system decline when the company reported its first-quarter results back on May 7.

Enbridge said throughput in April declined by 400,000 barrels per day, and the company expects similar throughput numbers in the second quarter. Its Mainline system represents close to one-third of the company's EBITDA, and if throughput is down, it'll have a trickle-down effect on Enbridge's financials.

Another risk for investors is that Enbridge's dividend doesn't look all that safe. Although the company has resisted cutting or suspending its quarterly payouts, it may be only a matter of time before it does. And should that happen, a selloff could ensue as dividend investors jump ship to safer investments. Enbridge currently pays investors a dividend of close to 8%, which oftentimes is too good to be true, especially when it comes to oil and gas stocks.

Enbridge is currently trading at more than 40 times its earnings over the past four quarters and with lower earnings likely ahead in future quarters, that multiple may only get bigger, making the stock an even more overpriced buy. Although the dividend yield may be enticing, investors should ditch this stock.

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2. NYSE:GOOS (Canada Goose)
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