2 Canadian Stocks to Avoid in August

Description

As we approach August, global markets are heating up. Despite losses late last week, markets are approaching all-time highs after the first bear market in nearly a decade. As of last Friday, the **S&P 500** was down only 4.5% from its pre-COVID high. The **TSX** hadn't recovered as quickly, however, remaining down 10%. Still, all North American indexes have been coming back to life this summer.

Believe it or not, that's actually a reason to tread carefully. As you're about to see, many companies are facing *long-term* trouble because of COVID-19. While the economy is recovering, many individual stocks may never be the same after all this. The following are two such stocks that you should consider avoiding in August.

Air Canada

Air Canada (TSX:AC) was one of the worst-hit Canadian stocks in the COVID-19 bear market. Unlike many other stocks that got hit, Air Canada remains down for the count. While AC is up 35% from its March low, it's closer to that than it is to its pre-COVID prices–which were typically around $52. By contrast, the TSX has regained most of the ground it lost in the market crash.

Air Canada's prolonged weakness is no reason to "buy the dip." Company executives are forecasting that it will take a full three years just to get back to 2019 revenue levels. Last month, the company cancelled 30 routes in Eastern Canada despite the fact that the broader recovery was well underway at that point.

The problem is that even after self-isolation orders are lifted, individuals may remain wary of travelling. Also, unemployment could continue to affect peoples' travel plans for the remainder of the year.

Canopy Growth Corp

Canopy Growth Corp (TSX:WEED)(NYSE:CGC) is another Canadian stock that has been hit hard this year. In this case, not so much because of COVID-19, but because of weak financials. Cannabis companies have actually done pretty well revenue-wise in the COVID-19 era. The problem is that that hasn't been enough to save them from spiralling costs.

In the 2020 fiscal year, Canopy Growth Corp lost $1.3 billion on $439 million in revenue. A big chunk of that loss was impairment and other non-cash charges, which came in at about $620 million.

However, the company still lost money on cash and recurring expenses. In fiscal 2020, Canopy's selling, general and administrative expenses alone came to $693 million–exceeding revenue for the year. It was the same story in 2019 and 2018. There's just no indication that this company is going to become profitable any time soon, which makes its high stock price hard to justify.

Foolish takeaway

This summer, stocks have been staging an impressive recovery following the COVID-19 market crash. Some are saying it's an overheated market. Others are saying that the positive momentum will last for years to come. Ultimately, nobody knows for sure.

What *is* certain is that the two stocks mentioned in this article are facing more than their fair share of headwinds. Proceed with caution.

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andrewbutton