The Surprising 2 Stocks You Should Avoid

Description

Stock market volatility is simmering down somewhat. Many investors may be enticed to believe the worst is over. Now, a very scary false sense of security is beginning to set in for many investors. This is evidenced by record stock market highs at the onset of a global recession.

In this article, I'm going to highlight two companies I see as dangerous to long-term investors in this context.

H&R REIT

The real estate investment trust (REIT) space has been hit particularly hard due to the coronavirus pandemic. On one hand, this sector has recovered to some degree from March lows. However, many REITs continue to lag the broader market.

This is due to a number of headwinds specific to real estate. One such REIT falling into this category of laggards is **H&R REIT** (TSX:HR.UN). This company has recently had an unimpressive stock price performance.

H&R has a relatively high weighting to office and retail real estate compared to its peers. These two sub-sectors of the real estate market have been hit the hardest. They will continue to be hit hard moving forward. In addition, the company's holding of malls is also doing poorly.

Secular shifts are impacting H&R's performance. These shifts include work-from-home arrangements away from office-based work. In addition, there is a shift to e-commerce away from traditional brick-and-mortar-retail. We are only seeing the beginning of the impacts of these shifts. The COVID-19 pandemic has simply accelerated these trends forward.

H&R recently cut its dividend in half in mid-May. The company signaled issues with its high payout-ratio and unstable cash flows. The company's cash flows are likely to remain under extreme stressover the next one to five years. Therefore, I expect to see another leg down once investors see howpoor rent collection numbers are in the quarters to come.

National Bank

National Bank (TSX:NA) is on my list of stocks to stay away from altogether. One of the main reasons is that this bank is most likely to cut its dividend next.

Canadian banks in general have a platform of near- to medium-term hurdles to jump over. These issues are exacerbated for smaller, regional players like National Bank.

National Bank has a unique position relative to its peers. The company's lending portfolio puts investors at a greater risk right now, in my view. The bank is highly exposed to the Canadian economy. This includes exposure to the energy sector, which has been particularly hard hit. Therefore, National Bank is perhaps the most economically sensitive option in this space.

My view is that the Canadian economy may be in for a very rough ride in the years to come. Only those extremely bullish on a miraculous run in energy and housing prices ought to consider a lender like National Bank. Investors with more conservative or moderate risk profiles would be better served looking elsewhere right now.

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