Sell Netflix NOW and Buy This 1 TSX Stock Instead

Description

As the world faces the decision to emerge from quarantine without a vaccine in place, the prospect for a faltering – if comprehensive – economic recovery comes closer. So too does the bull run enjoyed by stocks that ran rampant during worst of the pandemic. Here's why it's time to cash in those overvalued shares and start investing in a V-shaped recovery.

A play on value and comeback potential

It could be argued that the current recession isn't like the majority that have come before it. For one thing, it was entered into voluntarily. Sure, the alternative doesn't bear thinking about. But the fact remains that the pandemic recession is more of an economic hibernation than an inherent breakdown of the system. This should mean – in theory, at least – that this recession won't last as long as previous such events.

In turn, this should mean that many of the names that have been weighed upon by the pandemic should spring back fairly quickly. At the very least, some thoroughly chewed up stocks should see some steep upward momentum, sustained, whether sustained or no. But for the majority of blue-chip businesses that were able to freeze operations without permanent damage, a recovery in share prices could be just around the corner.

Consider the movie industry, in theory a sector able to speedily recoup losses. The coronavirus wiped out 98% of location shoots in the second quarter. **AMC Entertainment** lost billions mid-pandemic. **Cineplex** (TSX:CGX) lost out on a major deal with **Cineworld**. Meanwhile, **Netflix** (NASDAQ:NFLX) smugly clambered on up the charts in their place. The stay-at-home trend has now seen the tech stock turned movie studio gain 66% since last summer.

"When the cat's away, the mice will play…"

Unfortunately for Netflix shareholders, that particular trend could be cut short by a reopening of the economy – even a partially successful reopening not yet in receipt of a vaccine. (Indeed, the Trump administration's Dr. Anthony Fauci has expressly stated that a mandated vaccine is almost certainly not in the pipeline.) And so, in Canada at least, with Cineplex opening up theatres across the country, the cat is no longer away.

Indeed, Netflix is already starting to see its performance weaken. The last four weeks have seen very flat share price performance, in the green by a single percentage point. So much for this high-momentum tech stock. In fact, so weak has its performance been that the popular tech stock group formerly known as the FAANGs have had to change their name to the FAAMGs, incorporating the much stronger **Microsoft** instead.

Now quickly consider some of the data for Cineplex. The major entertainment network reported a catastrophic $98.9 million loss while its theatres were shuttered for almost a full quarter.

This is a stock that has lost 63.8% of its value in 12 months. But it's a huge wide-moat player, servicing an industry worth billions. The economy is reopening, and revenue is about to start pouring in again. All of the above adds up to a solid play on value.

CATEGORY

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2. Tech Stocks

TICKERS GLOBAL

1. NASDAQ:NFLX (Netflix, Inc.)
2. TSX:CGX (Cineplex Inc.)

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