2 Grossly Overpriced Stocks to Avoid Right Now

Description

Whether you believe a market crash is inevitable or not, it's generally not a good idea to be holding on to stocks that are overpriced. They can suffer corrections without warning, and investors can be left holding investments that may never recover. The two stocks listed below are investments I wouldn't dare put in my portfolio today out of fear that they could easily drop 10% or even more, especially with the markets continuing to show lots of volatility this year.

Shopify

Shopify (TSX:SHOP)(NYSE:SHOP) is the most valuable stock on the TSX, and it's one that I would avoid at all costs right now. Year to date, shares of the top Canadian tech stocks are up around 190%, and in three years it's soared to nearly 1,000%. It's been a great investment for many years, but that doesn't mean that it's still a good buy today. Its valuation is rich, and while it's possible it can continue rising, it would be a risky proposition to bet on.

There's a lot of hype surrounding the stock right now, as it's coming off an impressive second quarter for the period ending June 30 when its sales were up 97% year over year. It's a sharp increase from the first quarter where the tech company's sales grew by a more modest 47%. The company benefitted from more people staying at home and shopping online in Q2.

But with cities opening back up from COVID-19 lockdowns, and people no longer being stuck at home, those numbers could come down in subsequent quarters. And if that happens, you can expect to see some of the excitement surrounding Shopify start to cool off. Investors shouldn't forget how quickly things can turn, as shares of Shopify were trading below $500 earlier this year when the markets were crashing.

As quickly as the stock has risen in value, it can just as quickly fall back down. If you've made a good profit from Shopify, now might be a good time to consider cashing out those gains.

Restaurant Brands

Restaurant Brands International (TSX:QSR)(NYSE:QSR) is by no means having a great year, as it's down 13% so far in 2020. However, that's not bad given how poor the outlook is right now for the restaurant industry. Restaurant Brands has been struggling to find ways to grow its Tim Hortons brand in the past, and that problem's only exacerbated amid the pandemic. Its consolidated system-wide sales were down 20.9% in the second quarter for the period ending June 30, with Tim Hortons suffering the greatest decline at more than 33%.

For a company with the growth concerns that Restaurant Brands has right now, paying 25 times earnings and more than seven times book value for the stock seems egregious. And while many restaurants are back up and running, they're not operating anywhere near capacity. The third quarter will likely be better than Q2, but that will likely still be a big drop off from the previous year.

There are still far too many question marks around the future of COVID-19 and the impact it'll have on restaurants for Restaurant Brands to be a safe stock to buy right now.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:QSR (Restaurant Brands International Inc.)
4. TSX:SHOP (Shopify Inc.)

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Author
djagielski