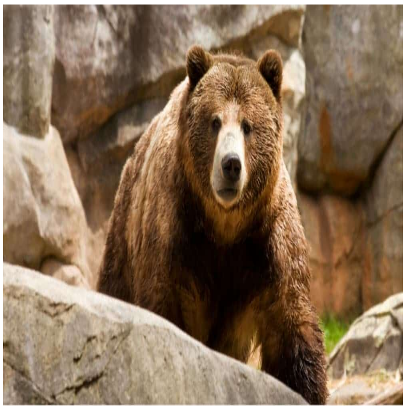

Warning: Avoid This Falling Stock As It Nears a Bear Market

Description

Whenever a high-quality stock falls into a correction, I'd be inclined to buy the dip. When it comes to health and wellness play **Jamieson Wellness** (TSX:JWEL), though I'm more content sticking to the sidelines, as the name looks to flirt with bear market territory.

At the time of writing, Jamieson stock is down over 15% from its high on good COVID-19 vaccine news. With two vaccines with efficacy rates in excess of 90% likely to be ready for 2021, many investors are looking beyond the horrific second wave we currently find ourselves in. The pandemic's end is in sight, and it could be over a lot sooner than most bears originally expected. For COVID-resilient plays that were bid up amid fears that the new normal would last for years, the recent vaccine news has done no favours for their share prices.

Jamieson has been selling a considerable amount of its vitamins, minerals, and supplements during the pandemic. Many folks, especially those lacking in Vitamin D, have stocked on Jamieson's incredibly recognizable green-capped products in an effort to improve upon one's health amid the pandemic.

While Jamieson doesn't have a COVID-killer pill, the importance of health and nutrition has been amplified amid the public health nightmare we've all been suffering through in 2020. That called for an increased appetite for vitamins, minerals, and all the sort, not only among Baby Boomers who are among the most vulnerable to the insidious coronavirus, but also among health-conscious millennials, who may have taken their health-consciousness to the next level this year.

Jamieson's results have been stunning in 2020

Jamieson has been firing on all cylinders this year. The company recently reported a stellar third-quarter earnings result that saw revenues soar 19.2% to $105.6 million. Quarterly adjusted EPS was clocked in at $0.30, modestly beating the Street by two cents. The company expects adjusted EPS to be in the range of $1.11 to $1.15 for fiscal 2020, with revenues of $395 to $400 million.

The fact that management actually gave guidance in the era of coronavirus was testament to the firm's incredible resilience and the force of pandemic tailwinds that it had been riding on. But what has me bearish on the beloved Canadian company?

For the quarter, there were no apparent flies in the ointment. My primary with Jamieson stock after shares continued to appreciate above $40 was its valuation and the potential for a vicious pullback once the inevitable rotation out of COVID-resilient stocks would come once vaccine hopes were renewed.

The valuation is still stretched

I've been a huge fan of Jamieson the business, but I changed my tune on the stock once the valuation had become too frothy for my liking. Back in September, amid Jamieson's continued climb to all-time highs, I warned that the stock had overextended itself and would be overdue for a plunge.

"Simply put, the bar is set a bit too high right now. Jamieson has been on a tear since April 2019 and is likely to surrender a small chunk of the gains in the event of a broader rotation out of pandemic-resilient growth into COVID-hit value stocks," I wrote.

With the best news we've received all year coming in over the last two weeks, the pandemic's end is in sight. And Jamieson stock had pulled back viciously, as I'd predicted. After the near-16% dip, I'd be inclined to avoid shares, as I don't think the rotation out of COVID-resilient plays is over quite yet.

Foolish takeaway

Jamieson's recent earnings were solid. But were they good enough to justify a frothy 38x trailing earnings multiple? I don't think so.

Shares are still unreasonably expensive after the post-vaccine-news flop, and Jamieson fans could have a chance to pick up the stock in the $20's if they're patient. For now, Jamieson shareholders should look out below because the bear — and not Santa Claus — may be coming to town heading into year-end.

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