



Think We're Overdue for a Market Crash? Here's a TSX Stock I'd Sell

Description

As the stock market continues its [climb](#) on the back of the great vaccine news delivered in early November, Foolish investors should think about taking at least a bit of profit off their frothier holdings that have seen their valuations swell. This piece will have a look at three names that I think are worthy of trimming in December if you're one of many euphoric investors who's yet to lock in any gains on the year.

While I don't think a catastrophic [market crash](#) is on the horizon, those with limited liquidity positions may wish to raise a bit of capital, so they'll be better prepared to buy any coming corrections. Analysts at **Morgan Stanley** are bullish on the 2021 outlook for stocks, but they're not ruling out the occurrence of a mild correction, which we seem to be overdue for after one of the best months of November in decades.

So, if you're up in the following names, I'd look to at least do some trimming before a good chunk of 2020's winners have a chance to surrender some ground.

Consider **Magna International** ([TSX:MG](#))([NYSE:MGA](#)), a top auto-parts maker currently experiencing strong momentum. The stock, which has been in the gutter earlier in the year, is coming close to a strong resistance level in the low \$80s. With a stretched valuation and a tough ceiling of resistance to break through, I'd say the risk/reward on the name has become less than stellar going into the holidays.

Magna stock has been coming in way too hot

The auto sector has looked pretty unstoppable lately. With all the euphoria surrounding the next generation of electric vehicles (EV) and robust demand for autos amid climbing coronavirus cases, shares of top Canadian auto-parts maker Magna have not looked back since soaring out of the depths of March. Magna stock got cut in half back in the February-March sell-off, only to post a full recovery of all of the ground lost and then some. Today, Magna stock is up 9% year to date and 13% from its February 20th pre-crash highs.

As one of the more cyclical discretionary names out there, Magna stock is precisely where upside-

seeking investors want to be if they believe that we're in the early stages of a new market cycle. As you may know, being in a highly cyclical stock at the right time can be profoundly rewarding. But if your timing is off, or you're wrong about where we're at in the market cycle, you could be dealt with outsize losses. Indeed, the stakes are high with such names.

After more than doubling since those March lows, I think Magna might be coming in a bit too hot. While I am bullish on the prospects of a 2021 K-shaped economic recovery, Magna looks to be a riskier bet in my books, given the risk of a technical retracement in the stock and a valuation that's become a tad stretched.

Foolish takeaway

Magna is by no means an expensive stock. But with traditional valuations metrics on the higher end of its historical range, I'd say it'd be a wise idea to take some profit off the table with the intention of putting it back to work at lower prices.

I've been quite bearish on Magna this year. And I've been proven wrong thus far, as the auto recovery has been much quicker than anticipated. As the current wave of COVID-19 cases worsens, though, the stage could be set for a tougher-than-expected coming quarter. If Magna stock were to retreat violently on a potential earnings flop, only then would I be comfortable picking up shares of the auto-parts maker.

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TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)

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Author

joefrenette

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