Investor Beware: 3 Stocks That Are Too Expensive for My Portfolio

Description

As the **TSX Index** heads into what most hope to be a recovery year, some of the hottest momentum plays could be at risk of running into a brick wall. This piece will have a look at three expensive TSX stocks that could either be at risk of a plunge or a prolonged period of share price consolidation in an attempt to wait for sales numbers to catch up.

While each expensive stock could still have room to run in a drastic worsening of this pandemic, I think the stakes are far too high going into a year that could see the pandemic tailwinds fade. Consider shares of **Shopify** (TSX:SHOP)(NYSE:SHOP), **Magna International** (TSX:MG)(NYSE:MGA), and **Linamar** (TSX:LNR) — three surging stocks that I personally wouldn't touch.

Shopify

Shopify is the high-flying Canadian tech gem that continued to defy the laws of gravity in 2020. The red-hot stock turned white-hot, as the pandemic accelerated the shift towards e-commerce. Indeed, Shopify was a critical lifeline for many small- and medium-sized businesses that were forced to close their physical locations during lockdowns. With mutated, more transmissible strains of COVID-19 out there, we could be at risk of yet another full lockdown, which could continue to fuel Shopify's epic rally.

At nearly 60 times sales (that's sales, not earnings!), the stock remains far too rich for my liking. While Shopify will never be appealing to traditional value investors, I think it'd be a wiser move to wait for a potential post-pandemic pullback, which could be in the cards once things the economy returns to normalcy.

Magna

The auto-part makers got clobbered in the initial coronavirus crash, but they've since taken off, andthey haven't looked back. Tech firms, including the likes of **LG Electronics**, which recently partneredwith Magna, are itching to gain some exposure to the white-hot electric vehicle (EV) space — a trendthat's likely to lead to many more such deals over the coming years.

With many investors placing their bets on MG stock as an indirect play on the continued rise of EVs, though, the stock finds itself on the high end of its historical valuation range and at high risk of a painful correction if the event that the auto sector goes into reverse.

If the **Tesla** bubble bursts in 2021 (I think there's a high chance it will), MG stock could also be hammered, as EV investors are forced to reset their expectations. While Manga shares aren't nearly as expensive as some of the other EV plays out there, I think the stock could see some froth taken right off the top if EV hype dies down.

If you're keen on betting on the capital-intensive auto-part makers for the long haul, Magna is a best-in-breed play. But personally, I'd wait until a pullback to $75 before considering initiating a position.

Linamar

Sticking with the auto-part makers, we have Linamar, a company that recently made headlines for being one of the largest CEWS (Canada Emergency Wage Subsidy) beneficiaries, taking in approximately $108 million worth of subsidies.

Unlike **Air Canada**, which also took in a considerable amount of subsidies, Linamar has been rocketing of late, with shares now up over 140% from their March lows. The company has also been gushing with cash towards the latter half of 2020, inspiring the firm to double its dividend.

Linamar's 2020 recovery was remarkable, and while its stock seems pretty cheap at 0.8 times sales, I think the name could be at high risk of a steep retracement if the auto sector pulls the brakes on its recovery in the new year.

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2. NYSE:SHOP (Shopify Inc.)
3. TSX:LNR (Linamar Corporation)
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