I'd Take Profits With These 2 Hot TSX Stocks

Description

"Sell in May and go away" is the phrase you've probably been hearing ad nauseam of late. While the stock market has surged to unprecedented heights, I don't think such an arbitrary strategy will help you beat the market over the long haul. If anything, by attempting to time the markets in such a way, you're more likely to lose big money off commissions and have to pay a higher price down the road if the correction you're timing doesn't come to fruition in the timeframe you're expecting.

That's not to say you shouldn't take any profits off the table this May, though. Some stocks have seen their relief rallies are overextended. Some may have hit a price that's substantially above your estimate of its intrinsic value. And if that's the case, there's no shame in taking a bit of profit right off the table.

In this piece, we'll look at two dividend-rich TSX stocks I'd be inclined to take profits on this May.

Canadian Natural Resources

Canadian Natural Resources (TSX:CNQ)(NYSE:CNQ) stock has more than tripled off its March 2020 lows. And although shares are still off 11% or so from its pre-crash 2020 highs, I still think the name is long overdue for a nasty pullback. While shares of the oil kingpin aren't overvalued, the stock's potential head-and-shoulders technical pattern seems ominous. It could imply a medium-term pullback towards the low $30 levels.

With surging oil prices and decent fundamentals, though, such a pullback would serve as nothing more than a fantastic buying opportunity for longer-term investors seeking a better entry point before the stock's next leg up. By selling CNQ stock today, you'll forego the 5.1% yield, but if you've already doubled or tripled up in the name, it may be wise to take profits off the table, as the stock is coming into May way too hot.

IGM Financial

IGM Financial (TSX:IGM) is another red-hot stock that's soared into the sky over the past year. For those unfamiliar with the name, it's a non-bank financial wealth manager behind such names as IG Wealth Management and Mackenzie Investments. While I think the wealth management industry will boom in the Roaring '20s, I think the non-bank wealth managers like IGM will be at a big disadvantage.

The company has raked in the fees from expensive mutual funds in the past. With the growing popularity of ETFs in Canada, wealth management margins could be at risk. Moreover, the big banks are making an aggressive push into the realm of wealth management. Given how convenient it is for existing customers to get wealth management services from their banks, I suspect their continued momentum will be at the expense of the non-bank wealth managers over the coming years.

Lower margins and stagnant AUM (assets under management) growth represent tough challenges for non-bank wealth managers. As such, I think IGM is in a tough spot and would be inclined to take profits in the name at this juncture. IGM stock is up over 80% from its March 2020 lows, making the name a tad too expensive for a stagnant grower in a tough industry.

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2. TSX:CNQ (Canadian Natural Resources Limited)
3. TSX:IGM (IGM Financial Inc.)

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