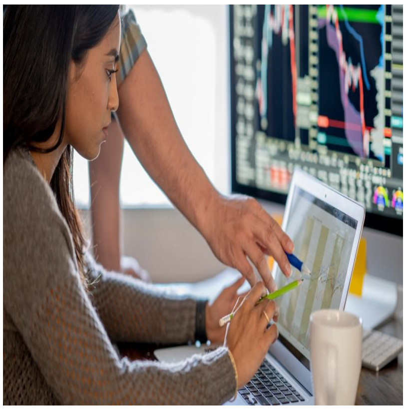

Why Canada Goose's Price Action Indicates We're Nearing the Top of the Market

Description

Canada Goose (TSX: GOOS)(NYSE:GOOS) is a stock that's been making headlines of late. The company's recent moves include an announcement of a marketing deal with the NBA. Seeing NBA's popularity among the youth, investors saw this as an opportunity and were quick to latch onto it.

However, this stock has sold off recently. Here's what to make of the price action with this stock.

Earnings volatility

Rising online sales led Canada Goose to report better-than-expected earnings. Indeed, the company's growth surpassed analysts' estimates, with shares climbing by 7% on the news. Based on Q4 revenue, sales are projected to surpass the US$1 billion mark for the first time ever.

In the first quarter of the current year itself, revenue witnessed a 48% rise from last year. This revenue also exceeded analysts' expectations by more than a staggering US$40 million. Despite these high earnings, there has been a drop in share prices.

Canada Goose depends on North America for the majority of its revenue, and with its NBA association with L.A. based RHUDE, investors were quick to buy this stock. This being a multi-year partnership, speculation around a strong return on investment are apparent.

However, questions remain around Canada Goose's valuation right now. As far as retail stocks go, the company's valuation is stretched. There's lots of growth here, but investors are questioning whether this growth can continue long term.

Bottom line

Canada Goose’s recent earnings certainly highlight the growth case for owning this stock. With retail sales likely to take off post-pandemic, investors are right to look at these retailers right now.

That said, valuation concerns are hampering stocks in general right now. As rates rise, the valuations of all high-growth stocks are likely to be called into question, and Canada Goose is no exception.

Indeed, I have to side with the company on its strong earnings. Canada Goose is building a strong international brand, and the company’s partnership with the NBA was an ingenious one.

That said, the question of how good this company’s long-term return will be for investors remains to be seen. This is a stock I think investors need to keep in the higher-risk, higher-reward portion of their portfolios. Accordingly, sizing this position is extremely important for long-term investors looking to maximize returns and keep their portfolio allocation within a reasonable risk tolerance spectrum.

Canada Goose is a company with a great brand, providing a small moat to this growth stock. It’s likely a play worthy of consideration today by high-growth investors.

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