2 Hot TSX Stocks That Are Overdue for a Pullback

Description

The broader markets are getting pretty frothy these days. Warren Buffett has been selling off a good portion of his portfolio. While his moves aren't a sign of something ominous ahead (he's not really good at timing the markets, having misplayed the 2020 market crash), I think that profits should be taken off of some of the hotter fast-flyers out there. Perhaps you can rotate some funds from stocks that have surpassed your estimate of intrinsic value into a beaten-down name that could have more room to run in 2021.

In any case, this piece will focus on two Canadian stocks that I think are long overdue for a pullback. Although I wouldn't hit the panic button if you own either of these names, I would think about trimming if you're a bit light on cash and ill-prepared to do considerable buying come the next inevitable market crash or correction.

Let's get right into the names.

IA Financial

IA Financial (TSX:IAG) is a truly wonderful business in the insurance and wealth management space. The company has exceptional stewards that tend to err on the side of caution. The dividend is well supported and is likely to grow at a good rate over time. That said, the stock has had a heck of a run over these past few months, leaving it at high risk of suffering a correction.

Now, I'm a huge fan of IA. I've recommended the name ad nauseam over the past year. But at these heights, I'm ready to change my tune. It's just a tad too expensive for my liking, given the muted growth you'll get. Right up ahead is a resistance level that I don't think will be broken, not with a diamond top pattern that looks to be in the works. Although I would keep the name on my radar, given the major strides it made in wealth management, I'd wait until after a correction before getting in.

It's a great company, but the valuation? Not so much. At least compared to its higher-yielding peers in the Canadian insurance scene.

IGM Financial

Sticking with the theme of Canadian financials, we have IGM Financial, a wealth management pure play behind such banners as IG Wealth and Mackenzie Investments. The company, which had raked in a considerable amount through high-fee actively managed mutual funds, is up against it with the continued rise of low-margin passive-investment products and a new generation of self-guided stock pickers who want to take control of their financial futures.

At just shy of the $45 mark, shares of IGM have surged above their pre-pandemic 2020 highs. I think a bit of ground could be surrendered over the coming weeks and months. The stock is just too pricey for my liking, especially after more than doubling off its March 2020 lows.

Sure, the 5% yield is enticing. But the firm will probably struggle to grow when stacked against the big banks, which, I believe, have a huge edge over non-bank wealth management pure plays, given their direct access to clients. Less marketing spend, more capital to invest in tech, and greater recognition are a huge plus for the Canadian banks, which I think are cheaper than IGM.

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