Market Downturn: 3 Stocks to Avoid Buying This Month

Description

As the stock market is expensive relative to historical valuations, it's time to be more cautious than ever. A dip is happening in the stock market, which can turn into a market downturn. With this backdrop in mind, investors should avoid these stocks.

Stocks with weak balance sheets

Investors should avoid stocks with weak balance sheets. **Cineplex** (TSX:CGX) stock is a prime example. It seems that the pandemic reopening play party is over for the high-risk stock, which fell about 7% yesterday and roughly 18% in the past five trading days.

The movie theatre and entertainment stock was a speculative but plausible turnaround investment when it fell to about $5 per share in late 2020. From that level, it tripled the money of lucky investors who had the courage and a heart of steel.

The market can quickly turn on the high-risk stock, which makes it difficult for investors not to react with a knee-jerk reaction of selling on meaningful pullbacks, such as the recent price action we've seen.

Cineplex's balance sheet is alarmingly weak. Its last 12-month total debt to total asset ratio is approximately 103%. If it were to liquidate tomorrow, investors would get nothing back. Because of the pandemic, the company's revenue over the last 12 months dropped 89% year over year! It also reported burning cash of $26.9 million on average per month in the first quarter.

Speculative stocks

Speculative stocks are often characterized by highly volatile price actions. When you buy shares of speculative stocks, you're expecting the next guy to pay higher prices than you. Speculative stock investing is not based on fundamentals. For example, **AMC Entertainment**, Cineplex, and **GameStop** stocks would be considered speculative at their recent quotations. There's no sufficient margin ofsafety for the new capital that is put into the stocks today.

In fact, some investors would go as far as calling any stock that doesn't pay a dividend to be speculative. These investors prefer solid dividend stocks that generate safe dividend income.

Healthy dividend stocks that pay consistent dividends year in year out with sustainable payout ratios are highly sought-after assets in long-term income portfolios. Ideally, they would be Canadian Dividend Aristocrats that tend to increase their dividends year after year.

Companies with high uncertainties

Market downturns, particularly, punish stocks that have high uncertainties in revenues, earnings, or cash flow. This means that these businesses can end up having highly volatile revenues, earnings, or cash flow, which can lead to large up or downswings in the underlying stocks. Commodity stocks including stocks of oil and gas producers would fall in this category.

The Foolish investor takeaway

As the overvalued stock market is just turning, a full-fledged market correction could ensue. It's not the time to take extra risks. So, avoid stocks with weak balance sheets, speculating, and companies with high uncertainties.

Instead, consider investing in quality dividend stocks like **Bank of Nova Scotia**, **Brookfield Asset Management**, and **Fortis**, especially on further pullbacks this month. They provide yields of up to 4.7% and are reasonably valued — certainly not speculative investments.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:CGX (Cineplex Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise

7. Yahoo CA

Category

1. Coronavirus
2. Investing

Date
2025/07/27
Date Created
2021/07/20
Author
kayng