1 Canadian Stock That Could Be in for a Pullback

Description

You've probably heard a handful of times that we're overdue for a pullback or correction. Undoubtedly, we've gone around a year without a truly painful correction. While we may be overdue for a plunge, it's important to note that strategists and gurus have been calling for a pullback since we kicked off 2021.

If you paid too much merit to shallow projections, you missed out on another epic leg of this bull run. Eventually, the correction will strike, and it will be painful. But the real question that should be on investors' minds is whether the pain of missing out on continued gains will exceed the pain of the next market pullback.

Undoubtedly, the smart money stays invested despite any concerns they have over inflation or the Delta COVID-19 variant. I think new Canadian investors should follow suit. Sure, you can be mildly bearish, but you should stay invested in spite of your concerns because being overdue for a correction doesn't mean one is nigh. In fact, given corrections tend to catch investors off guard, the correction may be pushed further out as certain investors move forward prudently.

We're in a stock picker's environment

There's no question that there's still ample speculation in this market. The "apes" and Reddit investors are still hungry for quick gains with cryptocurrencies, like Bitcoin, and meme stocks. Once the speculative excess corrects itself, the shockwaves are likely to be contained and not spread to other parts of this market. As such, if you pick your spots carefully and avoid chasing momentum, I think you'll do quite well in the second half.

That's the beauty of security selection. You can scoop up the bargains whilst trimming and ditching the names that may have rallied above your estimate of its intrinsic value. In this piece, we'll look at a name that I'd look to trim at all-time highs before a pullback can strike.

At this juncture, **Loblaw** (TSX:L) appears far too expensive in my book. Regardless of what ends up happening with the broader markets next, I think shares could be in a spot to cool off with either a pullback or a prolonged period of consolidation.

Loblaw: A new all-time high; a lofty price tag

Loblaw is the Canadian grocer that we all know and love. Shares have rallied around 30% off their March 2021 lows to hit new all-time highs. Undoubtedly, behind the scenes, a lot of things have been going *right*. The company is excelling with its private-label brands. And its latest line of yuzu-inspired products could beef up margins, even as food inflation pressures mount further.

Fellow Fool Ambrose O'Callaghan wrote a terrific piece outlining why Loblaw was a great buy amid higher inflation. Raising food prices and beefing up e-commerce has paid major dividends for the firm. Undoubtedly, things are looking up for the defensive retailer that's taken many years to hit new highs.

Still, the valuation is a tad too stretched for my liking. Loblaw trades at 24 times trailing earnings and 7.1 times cash flow. Not a cheap stock.

With the "Roaring 20s" underway, I'd argue that there are better places to be than the defensive grocer. Although digitization efforts are encouraging, I can't say I'm enthused about paying a growth multiple for a firm that's likely to enjoy modest growth over the next few years.

CATEGORY

1. Investing

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Date
2025/07/27
Date Created
2021/07/23
Author

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