3 Stocks I'd Avoid — and 1 Stock I'd Buy!

Description

Investing in the stock market always entails risk. But some stocks are riskier than others. On the less-risky end of the spectrum, you've got utility stocks that pay steady dividends and that tend to deliver a smooth but slow ride. On the other end, you have young tech companies that can rise dramatically but are also extremely volatile.

The amount of risk you choose to take on is up to you. My personal portfolio includes some pretty risky stocks as well as some tame index funds. I'm not afraid of taking on a little risk. There are, however, some stocks that are much too risky for me to consider buying. In this article, I will explore three such stocks that I wouldn't touch with a 10-foot pole — along with one safe stock I would buy.

Air Canada

Air Canada (TSX:AC) stock has been extremely volatile in 2020 and 2021. It has a 2.41 beta coefficient, which means that it is much more volatile than the nearest benchmark. I have some volatile stocks in my portfolio — for example, semiconductor stocks. Those are "risky" as measured by volatility.

The thing about AC, though, is that it faces business risks that arguably exceed what's reflected in the stock price. Air Canada simply cannot earn profits as long as COVID-19 is still ongoing. The scale of its losses has been lowered somewhat since 2020, but it's still extremely vulnerable. If another wave of March 2020 style nationwide lockdowns were to hit, passenger hours would plummet, and AC's revenue would plummet along with them. I don't think that's particularly likely to happen, but it's a possibility, and a risk that I'm not prepared to assume.

Canopy Growth

Canopy Growth (TSX:WEED)(NYSE:CGC) is Canada's best-known cannabis company. Its past few years have seen billion-dollar losses and massively slowing growth. Immediately before cannabis was legalized in Canada, Canopy received a massive $5 billion investment from a U.S. investor. That gave it a lot of cash, which it has since blown through with little to show for it.

In the most recent quarter, Canopy had just $2 billion in cash, down from about $6 billion just a few years ago. The quarter also showed a 3% revenue decline and a $16 million net loss. Canopy stock has already gone down a lot this year but frankly it could go down further. I would pass on this stock.

Peloton

Peloton Interactive (NASDAQ:PTON) is one ultra-volatile stock I wouldn't touch with a 10-foot pole. The stock's extreme decline this year (74%) has been well publicized, but my reasons for not liking it have nothing to do with its historical volatility or even its financials. Rather, it's the nature of its product.

Peloton sells exercise equipment with tablets attached. You have to pay a US$17-per-month subscription fee to use content that gets streamed to the tablet. It's similar to a gym membership, only you get one piece of equipment instead of hundreds, and there is a several-hundred-dollar up-front cost. Peloton's product became popular in 2020 when the COVID-19 pandemic closed down gyms, but once gyms are fully open again, the incentive to buy these devices is gone. Perhaps there will be a small market of people who still need Pelotons after COVID is over, but, for the most part, this seems like a pandemic-era fad.

TD Bank

For brighter fare…

Toronto-Dominion Bank (TSX:TD)(NYSE:TD) is one stock I absolutely WOULD buy. With a 10 P/E ratio and a 13.5% annualized earnings-growth rate, it has both value and (moderate) growth in one package. TD Bank's most recent quarter was a huge success, with beats on both revenue and earnings. Next year, the Federal Reserve and the Bank of Canada are likely to raise interest rates, so TD's profit margins on loans could improve. There are a lot of exciting things happening for banks in 2022. And TD Bank is perfectly positioned.

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2. NASDAQ:PTON (Peloton Interactive, Inc.)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:AC (Air Canada)
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