1 Falling Stock Investors Should Avoid

Description

Market corrections often provide investors with great opportunities to buy top stocks at undervalued prices. They also expose the risks investors face when trying to catch a falling knife.

Beware the trend

Good companies with steadily rising revenues and growing profits tend to pay attractive dividends. These stocks eventually get rewarded with share prices that drift higher over time. Companies in this category are the ones you want to buy when the broader market hits a rough patch.

However, some stocks with irregular cash flow or intermittent bouts of profitability followed by disappointing results can deliver nice profits for traders on short-term bounces but should be avoided by investors who are looking to grow retirement portfolios over the long run.

In some cases, a bad stock can turn things around, but normally, firms with stock charts that look like roller coasters or ski hills should generally be avoided in a retirement portfolio, as they can wipe out the gains achieved from holding high-quality stocks.

Bombardier

Bombardier (TSX:BBD.B) has generated some attractive returns for nimble traders who had the foresight to buy the dips over the years at the right times and knew when to bail out before the next plunge. Long-term investors, however, who bought into the idea that the company would eventually turn around have lost their shirts.

Bombardier just completed a reverse split that gave investors one share for every 25 they own. A reverse split is often a bad sign, and the stock is reacting as expected. At the time of writing, theshares are down more than 15% on the day, partly due to the broader market weakness and morespecifically due to the fact that workers just walked off the job. Roughly 1,800 workers are looking forbetter pay, as the union negotiates a new contract.

A quick look at the Bombardier stock chart on a split-adjusted basis shows how ugly things have been for investors. The stock had an equivalent value of $600 per share 21 years ago. At the time of writing, Bombardier trades near $25. The shares are down more than 40% in 2022 and now trade close to a 12-month low.

Bombardier is a mere fraction of its former size after being forced to sell off the rail and commercial jet businesses to reduce a mountain of debt. The remaining business builds private jets. This segment goes through cycles that track the global economy. Rich people want to fly on private jets these days, but demand could plunge if the anticipated global recession turns out to be worse than feared. Supply chain issues that are currently hurting the company won't be resolved quickly.

Bombardier is an important provider of thousands of high-paying jobs in Quebec, which is why the federal and provincial governments have repeatedly provided significant financial assistance, but the help, unfortunately, just seems to kick the can down the road, and each brief flash of light at the end of the tunnel somehow always gets snuffed out by the next problem. Whether it is due to bad luck, unfair competition, bad management, or a bit of all three, this stock has been a disaster for shareholders and should be avoided.

CATEGORY

1. Investing

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Date
2025/09/24
Date Created
2022/06/14
Author
aswalker