Proceed With Caution When Considering These 3 Ultra-Popular Stocks

Description

If you invest in stocks, there's a good chance you have a preference for popular names over obscure ones. It's human nature to buy what's popular. If a stock is popular, it gets more publicity, more research coverage, and more ratings than an unpopular stock does. As a result, you're a lot more likely to hear about it.

However, to make money in the stock market, you need to buy low and sell high. Viewed in this light, popular stocks can be problematic. If everybody and their dog is already invested in a stock, then how is the stock supposed to rise higher?

Ultimately, both popular and unpopular stocks can do well. A stock is never so popular that the entire planet's disposable income is invested in it, so there's always potential for gains. However, such stocks do tend to be more expensive than their overlooked peers.

In this article, I will explore three popular stocks that, while not necessarily bad buys, merit more caution than their cheaper peers.

Shopify

Shopify (TSX:SHOP) is a Canadian tech stock that has fallen 80% in price, yet is still arguably expensive. At today's prices, the stock trades at 8.2 times sales and five times book value (book value means assets minus liabilities). These valuation multiples are higher than average, suggesting an expensive stock.

Back in 2020 and 2021, SHOP was even more expensive than it is now. In those days, the stock would often trade at 50 or 60 times sales! During the worst months of the pandemic, Shopify was growing sales at 90% year over year, as the pandemic forced retail businesses to shut down, driving customers to online stores. Today, Shopify no longer has that tailwind behind it, and it is growing slower as a result.

Tesla

Tesla (NASDAQ:TSLA) is another stock that falls into the “expensive” category. At today’s prices, it trades at 61 times earnings, 9.4 times sales, and 18 times book value, which is far more expensive than Shopify. On the plus side, Tesla still has strong growth: in its most recent quarter, Tesla’s sales grew at 55% year over year.

Tesla stock is risky both due to its valuation and because it is involved in a lot of controversies. Its chief executive officer (CEO) Elon Musk recently bought **Twitter** and is now acting as that company’s CEO. Some think that Elon Musk will not have the time to give Tesla enough attention when he is also fully dedicated to running Twitter. Additionally, Tesla has faced some legal issues over the years, stemming from safety concerns, over-promising about the self-driving (FSD) feature, and other things. For this reason, its stock could be considered riskier than average.

Amazon

Amazon (NASDAQ:AMZN) is a stock that has done extremely well over the decades. Since the year 2001, it has risen over 10,000%! This company has made a lot of people wealthy, but it isn’t without its risks.

Even though Amazon is a relatively mature company, it is not consistently profitable. Amazon had positive net income in its most recent quarter (though significantly declined), while its free cash flow was negative. Some think that free cash flow is a better “profit” metric than net income, because it better reflects day-to-day cash revenue and costs. Given Amazon’s negative cash flows, investors would be advised to proceed with caution.

CATEGORY

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3. NYSE:SHOP (Shopify Inc.)
4. TSX:SHOP (Shopify Inc.)

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