2 Stocks to Avoid in July

Description

I recently wrote about two companies that investors should avoid at all costs. However, many big names that retail investors like aren't necessarily the best investments. In this article, I will provide two more companies that I personally would not invest in at the moment.

"Too big to fail" is not an investment thesis

One trait that many investors seem to look for in companies before buying shares is whether that company will fail in the future. More precisely, many investors seem to think that a company is a good investment if it is too big to fail. However, this is not a good thesis. You do not even need to look that far back to find an example of this (e.g., Lehman Brothers during The Great Recession).

Which company *isn't* too big to fail? **Enbridge** (TSX: ENB)(NYSE:ENB). This company generates, transports, and distributes energy across Canada and the United States. As of its latest community presentation, Enbridge is responsible for about 25% of all transported crude oil within North America and 20% of all natural gas consumed in the United States.

As of this writing, Enbridge is trading undervalued, which may convince investors to pour into the stock. However, the company has provided negative returns over many different periods, whether you assess the stock's performance over the past year or over five years.

Even with its dividends accounted for, you would be 7% in the red over the past five years. So, while you would have gotten a nice dividend, your overall investment value of your position would have decreased.

Enbridge has not given any indication of a turnaround in its stock in the near future. Until then, I suggest looking elsewhere if you would like meaningful gains.

Chasing dividend yields

One company I have always been very critical of is **Vermilion Energy** (TSX:VET)(NYSE:VET). This company is an oil and gas producer based out of Calgary, Alberta. Retail investors have this company near the top of their list for its excellent dividend yield. At one point during the COVID-19 market crash, Vermilion had a dividend yield of 74.79%!

Since then, the company has suspended its dividend and has not made a statement regarding any form of reinstatement. So with no active dividend, what are you left with?

Over the past five years, the company's stock has been in the red. Over the past one-, three, and five-year periods, Vermilion has returned -76.1%, -84%, and -87.6%, respectively. When accounting for dividends, these returns become -72.8%, -79.1%, and -81.9%.

No matter which way you look at it, investing in Vermilion would have lost you most of your principal investment. This is a stock that I would stay as far away from as possible.

Foolish takeaway

There are many companies that provide great dividends. Investing in a company because you think it is too big to fail or offers a very attractive dividend yield are two excellent ways to lose money.

Instead, focus on a company's financial performance over time, as its stock will likely reflect that. For now, Enbridge and Vermilion Energy are two companies I would re-consider.

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