3 Stocks To Avoid for the Next 12 Months

Description

As this coronavirus pandemic continues to ravage global financial markets, investors everywhere continue to adjust their portfolios. I do expect to see a reversion toward a longer-term mean coming out of this mess. Right now, timing is everything.

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The companies I'm going to cover in this article have great leverage to economic recovery. However, they may yield to significant near-term downside pressure. My prediction is that we are about to see at least 12 months of choppiness. These three companies are among those I'd recommend investors avoid for now.

Air Canada

As Canada's largest airlines, I've generally been bullish on **Air Canada** (TSX:AC) in the past as a cyclical winner during this past bull market. The reality is that highly cyclical sectors such as travel tend to get hit hardest by economic uncertainty. This pandemic has certainly created more uncertainty than most crises.

Similar to the terrorist attacks in 2001, investors do not know how soon or how rapidly this sector will begin to recover. The travel/airline sector is one I expect will be in secular decline, at least for the next 12 months.

Like its peers, Air Canada's high fixed costs and onerous union contracts make this sector even more leveraged to uncertainty. I expect to see continued government support for Air Canada in the form of bailouts to save jobs and rescue the sector. These efforts will be deemed to be in the national interest.

The question many have is just how much damage will be levied on Air Canada in the near term next 12 months is as follows: Is this really the best price for investors to take on the associated risk?

H&R REIT

As one of the paramount Canadian Real Estate Investment Trusts (REITs), **H&R REIT** (TSX:HR.UN) is one of those beaten-up companies causing some value investors to lick their chops. I still think, however, that more downside could be on the horizon for this REIT. This is due mainly to the trust's asset allocation.

H&R has a higher weighting toward office and retail real estate. These are two real estate sub-sectors I expect will see additional significant near-term pain. Structural economic shifts away from traditional office space and strip malls toward work from home business models and online shopping have only been accelerated by the COVID-19 pandemic.

The fact that H&R also has higher levels of exposure to Western Canada's weak economy (particularly Alberta) is also cause for concern. I would avoid this REIT for the next 12 months, at least, for these reasons.

Vermilion Energy

An energy play for investors seeking exposure to the European natural gas market, **Vermilion Energy** (TSX:VET)(NYSE:VET) is another potentially intriguing option value investors may be considering. This natural gas player had held up relatively well prior to the COVID-19 related crash.

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However, the company has not been immune to the recent implosion of commodity prices which has devastated the energy sector. As of right now, I do not see any reason to have exposure to energy markets globally, never mind domestically.

I view the Canadian energy sector as particularly risky relative to other global energy markets. This is due in part to the global perception of Canada as being a difficult place to invest in.

Companies like Vermilion simply have too many near term headwinds to justify a bull case for investing today of these levels.

Stay Foolish, my friends.

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1. canada
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TICKERS GLOBAL

1. NYSE:AC (Associated Capital Group, Inc.)
2. NYSE:VET (Vermilion Energy)

3. TSX:AC (Air Canada)
4. TSX:HR.UN (H&R Real Estate Investment Trust)
5. TSX:VET (Vermilion Energy Inc.)

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