



Value Investors: Avoid These 3 Value Traps

Description

Investors can engage in some dangerous exercises during times of market turmoil like these. One dangerous thing to do is to look at today's stock market levels in relation to historical highs. Investors may do this to project some significant level of "value" for previously high-flying stocks that have fallen to earthbound levels.

The idea of a value trap is simple. These companies look too cheap to ignore. However, these companies are actually poised to continue to decline due to deteriorating fundamentals. In this article, I'm going to highlight three such companies value investors ought to be wary of.

Manulife Financial

Manulife Financial Corp. ([TSX:MFC](#))([NYSE:MFC](#)) is perhaps the most intriguing of the three companies on my list. This is a great example of a **TSX**-listed insurance company that provides probably the clearest example of a value trap for the following reason.

The company's insurance business alone may perform quite well in the near term. There are two reasons for this. First, customers may view life insurance and other insurance products as necessary rather than discretionary. Second, the actual increase in fatalities from insurance-aged customers may not be as high as one may think.

However, these drivers should be more than offset by losses in the company's investing portfolio. This simple fact is that, due to the zero interest rate policies at central banks around the globe, returns on fixed income products automatically decrease. These returns are a key portfolio component for insurance giants like Manulife. Therefore, Manulife's future does not look too bright at the moment.

Bombardier

A company that once represented the pinnacle of Canadian innovation an engineering prowess, **Bombardier Inc.** ([TSX:BBD.B](#)) has continued to experience sustained shareholder selling. This is true

even despite a share price which is now a tiny fraction of the whole value investors placed on the firm in decades past.

Bombardier has been forced to sell off most of the company's operations in the train manufacturing and aerospace manufacturing businesses. The company has retained a small fraction of its previous capacity, focusing on its business jet segment. These asset sales were a direct result of poor balance sheet management in the past.

The current slimmed-down version of Bombardier can certainly be described as more focused and greatly improved from an operations/management perspective. However, the company still holds legacy balance sheet concerns. I think these will continue to plague shareholders in this economic environment.

Air Canada

As I have written in the past, **Air Canada** ([TSX:AC](#)) has been [one of my favourite high beta markets plays](#) in recent years. High beta companies like Air Canada that do much better than the overall market in good times are great during bull markets. Unfortunately, the inverse is also true. The speed with which Air Canada shares have ascended during the most recent bull market pales in comparison to the speed of the airline's decline since the coronavirus outbreak went global.

Iconic investor Warren Buffett has announced he's officially completely out of the airline industry for good. Likewise, I don't see any real reason to own an airline stock for at least the next three years. I expect we'll see more pain in the road ahead. Until our frequent flyers are back on planes en masse, and airlines can maintain high load factors, there's no reason to touch this stock now.

Stay Foolish, my friends.

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TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:AC (Air Canada)
3. TSX:BBD.B (Bombardier)
4. TSX:MFC (Manulife Financial Corporation)

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