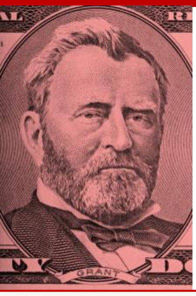


Sell These 5 Stocks on the Verge of Bankruptcy

Investors Alley
Blue Chip Gems

Investors Alley

Fellow Investor,

Writing about stocks to avoid is not nearly as fun as highlighting potential big winners. These reports tend to generate the occasional surly comment from a reader who holds a position in an equity you just labeled overvalued. However, in managing a portfolio sometimes the stocks you passed on can be nearly as important as the equities you purchase.

The more money one has tied up in overvalued equities vulnerable to significant pull backs or just stocks that are “dead money”, the less chance for an investor’s portfolio to outperform the overall market. In what I consider a slightly overbought market there are myriad well-known names I would avoid at the moment either because of valuation, lack of growth drivers, or because they have significant challenges to their business models currently.

Here are five well followed stocks that are not worth buying at current levels.

Bret Jensen
Editor
Bret Jensen's Blue Chip Gems

No. 1 Stock to Sell: Yelp (NYSE: YELP)

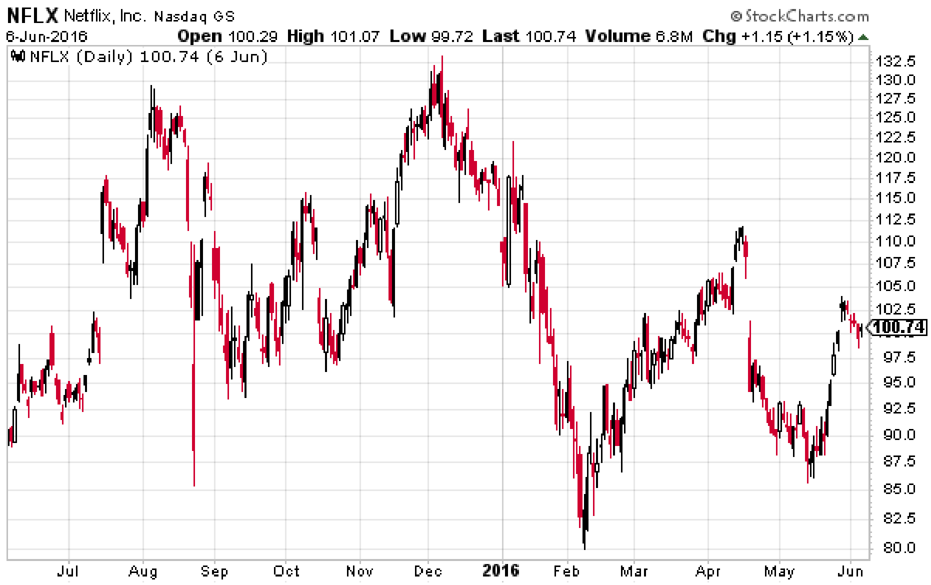
Trading at 200x earnings, there's still a lot of questions surrounding Yelp. Questions that investors aren't waiting around to have answered as the stock keeps tumbling and fell over 50% earlier this year, though they've posted a modes recovery.

In truth, the action at Yelp has been some of the fiercest in terms of insider sales. The sheer amount of insider sales for 2015 tops 263,000 shares versus only 7,360 shares purchased. That means insiders have dumped roughly 45% of all the shares they own. Not a big vote of confidence from management.

The major players in the C-suite, including the CEO, CFO and COO, dumped over $6.5 million in shares since mid-February, and institutions have sold almost 17 million shares since before Q4 started.

This comes as growth at Yelp is slowing, driven by a fall in monthly unique visitor growth. It's just not finding traction internationally and still doing a poor job of getting businesses to pay to advertise. Meanwhile, it still spends a lot of money on sales and marketing efforts to generate the sales it does have. So there's little the company can do in the interim to help cut costs.

No. 2 Stock to Sell: Netflix (NASDAQ: NFLX)



I would avoid this highflyer that did very well in 2015 but sports a sky high multiple. The equity was the best-performing stock in the S&P 500 in 2015 delivering an over 140% gain. It has captured the imagination of momentum investors as its rolls out to some 200 countries across the globe.

Insiders sold over 900,000 shares of Netflix stock in the last six months of 2015 and not one insider stepped up to purchase a share. This stock is the poster child for irrational exuberance.

In addition, the company is facing increasing competition from YouTube and Amazon Prime; their content costs continue to march higher too. It will be hard pressed to raise prices significantly so it is hard to see how the company increases margins. At some point, any hiccup in its “story” could cause a huge drop in its stock price which has happened many times in its history as a public company.

No. 3 Stock to Sell: IMAX Corporation (NYSE: IMAX)

With the stock selling at levels we haven't seen since 1997, and even then it was just for a brief few weeks, insiders are hitting the Sell button. The CEO has been leading the charge in terms of insider sales, but the CFO and an EVP are also following suit. This is the smallest stock on our list with a $2.14 billion market cap, and yet, it has seen one of the highest values of shares dumped, coming in at over $7 million.

However, the biggest sale of the year just happened in November with one insider unloading a whopping $13.6 million of shares on the 13th.

And for good reason, IMAX appears to be hitting a saturation point. In part, because theater installments are slowing, but also because theater visits continue to be threatened by on-demand and at-home services.

Let's not forget that much of IMAX's business still relies on box office releases and their relative success. Finally, there's rising competition from a similar concept by Cinemark called XD.

No. 4 Stock to Sell: United Therapeutics (NASDAQ: UTHR)

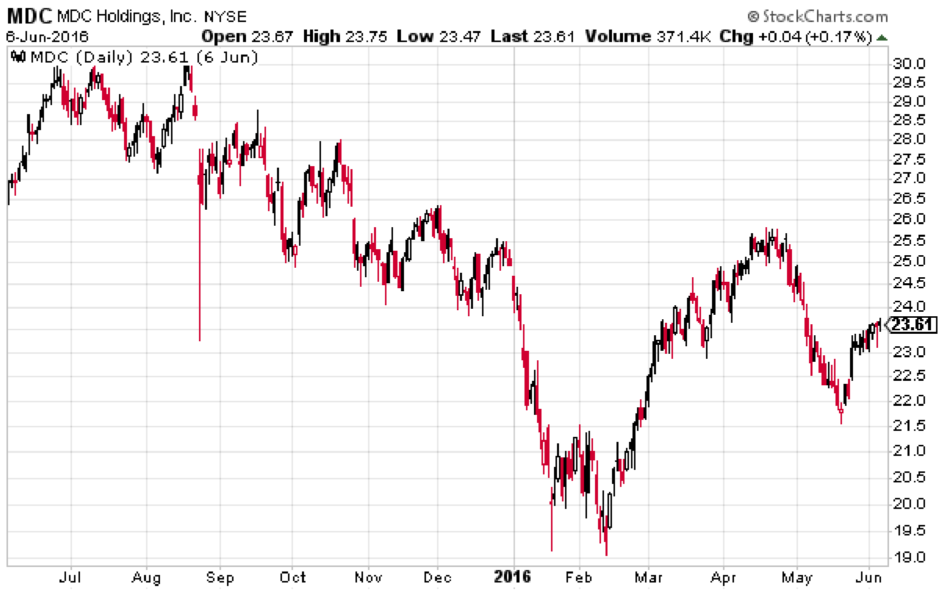
Well, it looks like investors aren't loving all biotech stocks, despite the resurgence in the sector. Insiders have turned sour on United Therapeutics. It has two CEOs (each with the title co-CEO) and both have been actively selling over the last year. Their general counsel has also gotten in on the action. In any case, the cumulative action between the three is over $6 million in stock sales.

United Therapeutics has one key product, Remodulin, which serves a very small market. Its focus market is for those suffering from pulmonary arterial hypertension, which is less than 250,000 people worldwide.

It does have three products in total on the market, but all three have competition. Plus, it will lose patent protection for Remodulin in 2017.

No. 5 Stock to Sell: MDC Holdings (NYSE: MDC)

Housing, just like during the last recession, will play a key role in the upcoming one that many economists are predicting. It's a market riddled with uncertainty right now as millennials continue to opt for rentals versus home buying. Mortgage rates have been at near record lows for years, thus, again we're faced with the question of what's the catalyst?



This is an especially troubling trend as the number of incremental buyers for homes continues to shrink. This particular generation is opting to defer marriage and kids, which is delaying their move to homes and the suburbs. When the recession hits, that move will be deferred even further.

Right now, the most expensive homebuilder looks to be **MDC Holdings (NYSE: MDC)**, trading at nearly 20 times earnings. Now, it's one of the smaller homebuilders and will be the most volatile when the recession hits. The other issue is that it focuses on speculative homes, building homes without buyers. A risky bet for homebuilders heading into a recession.