Beware of Toxic Investments

Kodak was a great stock until digital photography came along. A great stock became a toxic stock. Beware of toxic investments and get out of stocks that are bucking the trends. *The Motley Fool* offers **three stocks that could prove toxic** to your portfolio.

> *Some industries just can't compete with changing trends. Take retailers and offshore drillers, for example, which are struggling to contend with the lower-cost technological innovations of e-commerce and shale drilling, respectively. Because of that, companies in these industries are seeing their sales and profits sink, which is taking their stocks down as well. We don't see either trend going away anytime soon, which is why stocks in these sectors could prove toxic to your net worth. Three stocks that we think could be particularly harmful are Stage Stores (NYSE:SSI), Target (NYSE:TGT), and Seadrill (NYSE:SDRL).*

The **Target security breach** was a painful fiasco for the stock but Target recovered back in 2013. What has dragged down Target sales is a losing battle with the internet. Stage Stores are in worse shape. The current saving grace for Target is a healthy dividend but until the economy really starts humming and people buy in the store instead of online bricks and mortar retailers are toxic even at cheap prices.

When it became hard to find oil on land they started drilling offshore. This is more expensive but can be lucrative at the right oil price. Unfortunately the collapse of oil prices has hurt offshore oil and reduced the demand for oil exploration and drilling of new wells. More importantly **oil fracking technology** has gotten more efficient and more economical. If you are looking for new oil it is more profitable to look in shale formations than a mile beneath the surface of the Gulf of Mexico. Offshore oil drillers will be toxic investments for the foreseeable future.

Signs of a Dangerous Stock

How can you spot dangerous and toxic stocks? *Mad Money* has a simple suggestion for how to know that a **stock is too dangerous**.

> *Jim Cramer reminded investors that when they see a stock with an absurdly high yield, they need to stay the heck away from it.*
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> *"I don't care how tempting the dividend looks or how cheap the stock seems. A super-high yield that is totally out of whack with its peers is almost always a sign that something is very, very wrong and you need to run, not walk away as fast as you can," the "Mad Money" host said.*

> *A classic case of this is with Frontier Communications, a small telecommunications provider with a monstrous 14.6 percent dividend yield that closed at $2.76 per share on Monday.*
> *The stock might seem tempting, but buying a stock for that big of a yield is almost always a mistake.*

The important part is the recent history of the stock. It was an $8 stock that lost two thirds of its value over the previous year. Look to see the dividend cut soon and the stock to fall even further. Beware of toxic investments.

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