# Americans Hate These Canadian Stocks; Should You Avoid Them Too?

## Description

Last year, **Home Capital Group** (TSX: HCG) had a bullseye right on its chest. Americans were short-selling the company's shares, betting that Home Cap's subprime mortgage business would suffer in a real estate downturn. But the downturn still hasn't happened, and Home Cap has continued to perform well.



Fast forward to today, and the shares have almost doubled since May 2013. Some would call this a "short squeeze", where a rising stock price forces short sellers to buy back shares, driving the stock price even higher, and creating a vicious cycle. But in Home Cap's case, this was more  a case of short sellers being wrong. The American hedge funds just didn't understand one of Canada's highest quality companies.

So what might be the next Home Capital Group? Below are three stocks that Americans love to hate, but may belong in your portfolio anyway.

**Ritchie Brothers Auctioneers**

**Ritchie Brothers Auctioneers** (TSX: RBA)(NYSE: RBA) specializes in running auctions for used heavy equipment. There are some concerns about the company. One is that a lot of this equipment is used in mining, so further slowdowns in the sector will hurt Ritchie's business. Another is the company's slow growth; gross auction proceeds actually decreased by 2% from 2012 to 2013. Finally, Ritchie trades at a rich premium, with a forward price/earnings ratio of 23.1. Little wonder there are so many investorsshorting the company south of the border.

But Ritchie has some very strong advantages. As the market leader, it can offer the best marketplace to both buyers and sellers. This creates a strong moat that is very difficult for competitors to cross. And despite being the market leader, Ritchie still has a very small market share of used heavy equipment sales. This gives the company plenty of room to grow.

**CGI Group**

Montreal-based IT services company **CGI Group Inc** (TSX: GIB.A)(NYSE: GIB) is easily Canada's largest technology company by market capitalization. It is also one of Canada's most polarizing companies.

Jason Donville of Donville Kent Asset Management calls the company a "screaming buy". It's trading at less than 10 times estimated 2015 free cash flow, and has plenty of opportunities to grow through acquisitions. The company is also making great progress in Europe after a transformative acquisition in May 2012.

But CGI came under a lot of fire for its role in the healthcare.gov debacle, and others have expressed concerns about the company's accounting aggressiveness. However, these issues have had no impact on CGI's business prospects, and may have only provided an opportunity for contrarians to buy the shares.

**Thomson Reuters**

**Thomson Reuters** (TSX: TRI)(NYSE: TRI) has had some well-documented problems. The company made a transformative acquisition at precisely the wrong time, struggled with its new financial services product Eikon, and has lost market share to rivals like Bloomberg. Revenue is essentially flat year over year. And the shares trade at 16 times forward earnings.

But Thomson Reuters generates very steady revenues, thanks to its subscription-based business model. There are opportunities to take out cost by consolidating products. Most of the company's businesses are growing. And there is a nice 3.6% dividend yield.



**Foolish bottom line**

All of these names certainly have short-term problems. But these issues have probably gotten more attention than they deserve, which is why the shares are so heavily shorted. And this may have created some perfect buying opportunities. As long as you're patient.

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