



Contrarian Investors: 2 Oversold Stocks I'd Buy With an Extra \$10,000

Description

The correction in the stock market is giving contrarian investors a great opportunity to pick up some top companies at very low prices.

Here are the reasons why I think investors with a bit of cash on the sidelines should consider **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)) right now.

Silver Wheaton

Silver prices have been on the slide for the better part of five years and Silver Wheaton's stock has tagged along for the ride.

Most investors don't want anything to do with gold and silver plays, but there is a sense in the markets right now that the tide is changing.

Gold is catching a bit of a tailwind because the market now believes the Fed will slow down its expected pace of interest rate hikes. Concerns about geopolitical tensions and a potential financial meltdown in China are also bringing some safe-haven seekers back into bullion.

Silver is getting a bit of support from the falling dollar, but investors should also look at the longer-term outlook for the metal. Silver is used in the production of solar panels, and that market is set to expand significantly in the coming years.

Silver Wheaton is not a miner; it simply provides cash to mining companies in exchange for the right to purchase gold and silver produced at the mine for discounted prices. Silver Wheaton then sells the precious metals on the open market and pockets the spread.

Management has been taking advantage of the difficult market for mining companies to add new supply streams at very favourable prices. Production for 2015 likely came in at 44.5 million silver equivalent ounces. That is set to grow to 55 million ounces by 2019.

The best part for investors is the fact that most of the growth is already fully funded.

The stock could slide on further weakness in the gold and silver market, and investors have to watch the company's ongoing battle with the Canada Revenue Agency, but the downside risk is probably limited at this point, and there is some huge upside potential when precious metals finally decide to rally in a meaningful way.

Canadian Pacific

Canadian Pacific recently reported weaker-than-expected earnings for Q4 2015, and that news, coupled with concerns about a major takeover battle, drove the shares down to \$140. Investors who paid \$240 per share last year aren't very happy, but new investors should be excited about the selloff.

The stock has already bounced back above \$160 per share on speculation that Canadian Pacific might have to abandon its efforts to buy **Norfolk Southern Corp.**, a U.S.-based railway. Canadian Pacific's overtures haven't been well received by Norfolk Southern's board, and the market has been concerned that an ugly takeover battle could be too much of a distraction at a time when the market is facing some economic headwinds.

Despite the rough market, Canadian Pacific finally looks attractive.

The company is run by one of the top management teams in the industry and is now very efficient with an operating ratio of about 60%.

Canadian Pacific's Q4 adjusted earnings were \$2.72 per share, just four cents shy of the consensus estimate of \$2.76. Management is targeting double-digit earnings-per-share growth in 2016 and expects to bring the operating ratio below 59%.

The company generated 2015 free cash flow of \$1.16 billion, up 59% from 2014. That's some serious dough!

Investors with a long-term strategy should use the cyclical slowdown in the commodity sector as an opportunity to start a position in the stock. The shares are now trading at 18 times trailing earnings, a huge discount to the five-year average.

This is one of those names you can simply buy and hold for decades.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CP (Canadian Pacific Railway)
2. TSX:CP (Canadian Pacific Railway)
3. TSX:WPM (Wheaton Precious Metals Corp.)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/06

Date Created

2016/01/27

Author

aswalker

default watermark

default watermark