

## 3 Contrarian Picks for the New Year

### Description

As a contrarian investor, you may be wondering if it's time to pick up a beaten-up stock with the hope that it will make a rebound this year. The Foolish investor must always avoid catching a falling knife and make an educated decision when looking at a beaten-up stock. The stock must have a catalyst that will send it higher over the next few years. But, more importantly, the stock must be priced at a discount to its intrinsic value such that there exists a significant margin of safety.

One must not buy a stock simply because it's cheap. Warren Buffett used to call these types of stocks "cigar butts." Don't be a cigar-butt investor. Make sure the stock you're buying is actually a good business that is facing a temporary headwind — not one that could have its long-term earnings growth in jeopardy.

#### **Empire Companies Limited** ([TSX:EMP.A](#))

The stock has fallen over 51% from its high in 2015, and it doesn't look like the downward momentum is going to subside anytime soon.

Empire had an abysmal earnings report; profits fell by over 50%. There's no question that the management structure is a mess right now, but there is light at the end of the tunnel. The management team at Empire is looking to restructure its operations; however, it is very unlikely that these measures will affect the financials until 2019.

Empire is very cheap, and currently, it has a mere 1.3 price-to-book multiple. The stock has grand brands in Safeway and Sobeys, and I believe they will be great again when the management team can get operations back on track. I believe Empire is a great contrarian play right now, but investors should use caution when trying to pick up the stock right now.

It can be dangerous to buy companies falling as fast as Empire is, but there is a way to cut down on the risk. Never buy shares of a company like this all in one go. Buy a small portion now and keep buying on the way down. This way, you can lower your cost basis if there's still more downside in the stock.

#### **Hudson's Bay Co** (TSX:HBC)

Hudson's Bay had a tough 16 months and is now down a whopping 54% from its all-time high. The management team cut its future guidance by reducing its expected sales estimate by approximately \$1 billion.

The management team wants to cut costs in order to boost profitability, but I don't think it's as simple as that. Retail is going out of fashion, and the management team needs to get people back in its stores through new marketing strategies.

Hudson's Bay is really cheap right now with a one price-to-book multiple. I would buy shares now and

on the way down because I think this Canadian favourite has what it takes to rebound over the next few years.

**BlackBerry Ltd.** ([TSX:BB](#))(NASDAQ:BBRY)

BlackBerry had a tough 2016, as the stock plummeted 27.5%. The latest earnings report was unimpressive, but there is reason to believe the company could be at a turning point.

The company is shifting its focus to software and stepping out of the hardware spotlight. BlackBerry is gearing up to be an IoT (internet of things) software producer going forward. Autonomous vehicles are a huge area that I believe BlackBerry will be able to thrive in as a software producer.

There's no question that BlackBerry is speculative at current levels. The company keeps disappointing, and I'm not sure if the transition from hardware to software will be a smooth one.

If you're bullish on this transition, then I would say it's a speculative buy, but only if you're willing to take on the additional risk with this name. There's still a lot of unknowns with BlackBerry's future.

## Conclusion

These are just three stocks that could be huge winners in 2017, but make sure you're not looking for huge overnight gains with these names. You must have a long-term mindset because the rebounds could take longer than one year. Also, be very careful when investing in these stocks and make sure you use dollar-cost averaging to minimize the risks when trying to catch falling names like these.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:EMP.A (Empire Company Limited)

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## Author

joefrenette

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