



Digging into Badger Daylighting Ltd.: Watch Out Below

Description

Investors looking for value (such as myself) tend to look at the month's most beaten-up stocks to see which companies may present excellent buying opportunities based on current weakness and buy based on solid long-term fundamentals. Great companies often experience cyclical weakness. Based on the logic that great companies will continue to perform well over time, buying these stocks at a significant discount is one way long-term investors are able to turn periodic weakness into long-term value over time.

Short attacks on companies are one such source of short-term weakness that can drive the stock price of a company significantly lower in a short amount of time. **Badger Daylighting Ltd.** (TSX:BAD) has seen such weakness of late. Shares of Badger now trade at a discount of more than 36% compared with its price just a month ago, signaling to the market that the concerns posted by infamous short-seller Marc Cohodes may not be overblown.

But some value investors are salivating. I'm going to discuss why extreme investor caution with respect to Badger may be the best course of action moving forward.

Short attacks are not created equal

This month, Marc Cohodes published a website, www.turnoutthebadgerdaylight.com, in which he posted his short thesis for the world to see. On news that Mr. Cohodes shorted the stock, shares of Badger dropped more than 20% on the same day, and have yet to recover, diving lower on continued research into the company's management, fundamentals, and long-term prospects.

Mr. Cohodes's impressive track record with respect to sniffing out Canadian companies that may be overvalued based on ardent investigative research has proven to be fruitful for those following his lead. Of the companies he has targeted, most have seen significant re-valuations downward, with nearly all of the companies Mr. Cohodes has publicly called out losing the vast majority of their market capitalization in short order.

Investors can visit Mr. Cohodes's website for further information on the downside view of Badger and assess whether a value position in Badger makes sense.

Bottom line

The short thesis proposed by many who have looked at Badger's fundamentals and deemed the company to not be investment-worthy must be taken at face value. As of right now, I remain on the sidelines, anticipating significant declines to come, based on new pieces of information yet-to-be-released from short positions in this company.

Stay Foolish, my friends.

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