2 Oversold Stocks That Could Be Great Buys Today

Description

When stocks move too much in one direction or another, there is the possibility that the market has overreacted. One example is on earnings day, when a company has a good quarter. The stock may have a strong day in response to the favourable earnings result, and the increase in price could be excessive, which often results in a correction on the following day. Whether a stock has seen excessive buying and could be overbought, or if the reverse is true and the stock is oversold, both scenarios demonstrate how the market can be inefficient by moving too much in either direction.

These inefficiencies create opportunities for investors to take advantage and buy a stock when it is oversold and sell it when it becomes overbought. It may sometimes be difficult to determine if a stock has become oversold or overbought, but that is where technical analysis becomes particularly helpful.

One technical indicator that I like to use to spot these types of scenarios is the Relative Strength Index (RSI), which looks at average gains and average losses of the shares over a period of time — normally the last 14 days. The higher the average gains are than the average losses, the higher the RSI number becomes, and vice versa. An RSI value over 70 suggests a stock is overbought, while a value under 30 means it is oversold.

I am going to have a look at two stocks with RSI levels under 30 that could be undervalued.

Sierra Wireless, Inc. (TSX:SW)(NASDAQ:SWIR), as of the end of last week, had an RSI value of just over 28, indicating that the stock is oversold and could be due for a trend reversal. Year-to-date, the share price is up 24%, but in the past three months, it has lost 35% of its value and is down 10% in just the last month. The decline came as a result of the company's second-quarter earnings; although they showed sales growth, there was a decline in the guidance for the rest of the year.

This certainly looks like a case of the market overreacting, and a strong Q3 could more than make up for the decline. With a price-to-earnings multiple of 34, Sierra could be a bit too expensive for value investors. However, **BlackBerry Ltd.** trades at a multiple of 40, and the company has been surrounded by much more uncertainty and volatility than what Sierra has seen.

Keyera Corp. (TSX:KEY) is another stock that has seen its share price plummet after it released its quarterly earnings in August, dropping 7% since that time. Keyera also had a strong quarter overall with sales increasing 32% and earnings per share (EPS) rising as well. However, in the earnings world, it is expectations that ultimately matter and impact how the stock will perform, and with an EPS of $0.36, the company narrowly missed expectations of $0.37.

The stock also declined before earnings came out, and in three months it has lost over 15% of its value. Part of that decline in share price, especially prior to earnings, could have been due to investors selling off earlier gains.

Keyera's RSI level as of the end of last week was 26, and with share price around its 52-week low, it could be a great time to buy the stock.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

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3. TSX:SW (Sierra Wireless)

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Author
djagielski