

Value Investors: 2 Oversold Stocks That Could Be Great Buys Today

Description

When share prices see large declines in price, it's normally the result of either bad press or a bad earnings result that sends the stock tumbling down. However, the sell-off that ensues is often an overreaction, and there can be a correction that happens afterward. One way to spot these overreactions is by looking at technical indicators that can help determine if the drop in price is extreme.

One such indicator I like to look at in these instances is the Relative Strength Index (RSI), which is a calculation that takes into account the average gains and average losses of a stock over a period of time, typically the last 14 days. When the RSI level dips below 30, that means that the average losses have vastly outweighed the average gains during this period and that the stock is oversold. This could be a sign that a market correction, or reversal, might be in order depending on what has caused the stock to plummet.

I'm going to have a look at two stocks that have dipped into oversold conditions and determine if these shares could be good value investments today.

Intertape Polymer Group ([TSX:ITP](#)) is hovering just under 30 on the RSI indicator right now, but the stock has had an oversold status since August; the shares recently hit a 52-week low. The stock had already dropped 13% before the company released its Q2 earnings in August, but those results sent the share price from bad to worse, as the shares dropped another 17%.

The specialty packaging company saw revenues for the quarter increase year over year, and although profits had a slight decline, the biggest reason for the drop appears to be due to Intertape cutting its earnings expectations for the year by 6% on the low end and 7% on the high end of the forecast.

At first glance, the sell-off does look to be overdone, but the stock may have been overpriced as it still trades at a multiple of about 21 times earnings, even after the big drop in price. Given the high multiple and the company not expecting growth to be as strong, it's not a stock that I think is worth its price.

Ag Growth International Inc. ([TSX:AFN](#)) is another stock that has been sitting in oversold territory for the past couple of weeks and currently has an RSI level of just over 29. The company saw a big sell-off happen on September 18 when the share price dropped 6.5% for seemingly unknown reasons. On this day, there were over 326,000 shares traded, which is abnormally high for the stock; it normally sees less than 50,000 shares change hands every day.

Ag Growth issued a press release on the 18th: "[We are] not aware of any material undisclosed information related to the company or our operations that would account for this trading activity." The stock has seen a little bit of an increase since the drop in price, but it is still trading at prices not seen since April of this year.

Given the sharp drop off in price for no apparent reason, this stock may see a bit of a recovery take place in the near future.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:AFN (Ag Growth International)
2. TSX:ITP (Intertape Polymer Group)

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