



3 Stocks to Own That Analysts Can't Stand

Description

Do you follow the advice of analysts?

A study of U.S. stocks between 1981 and 2015 showed that the most favoured stocks by analysts regarding long-term earnings growth delivered a return of 3% over the 12 months immediately following the analysts' forecast — about one-fifth those of the least-favoured stocks.

There are many reasons why not to buy what analysts are selling, the biggest being that they're systemically programmed to give "buy" ratings because that generates potential investment banking and corporate finance business for their firms. "Sell" recommendations do not, which is why you rarely see them.

So, if you want to own stocks rather than short them, and you believe doing the opposite of analyst recommendations will get you to retirement faster, you're in for very tough sledding.

Why?

It's because there are a lot more stocks that analysts like than dislike. Nonetheless, I'm prepared to do the heavy lifting for you by revealing three TSX stocks that analysts can't stand, but that you should love.

The screen

Average retail investors will have a tough time finding possible candidates.

Thankfully, the *Globe and Mail* has a current recommendation section in its stock filter that's allowed me to identify 280 TSX stocks with a market cap of \$500 million or more that have a rating.

Of those stocks, just two have "underperform" ratings. Another 60 have a "hold" rating, which is the analyst's way of saying, "I don't dislike the stock, but I can't see my firm generating fees from it, so I've put it on the shelf until that situation changes." The remaining 218 (78%) have a "buy" or strong rating.

So, I only have two possibilities, but to get the job done as advertised, I'll have to wade into those stocks rated "hold." Interestingly, one of the two "underperform" stocks is Jean Coutu Group PJC Inc., which has been acquired by **Metro, Inc.** ([TSX:MRU](#)), a piece of news that lit a fire under both stocks.

That's a swing and a miss by the analysts.

The first selection

Canadian Utilities Limited ([TSX:CU](#)) is majority owned by **ATCO Ltd.** ([TSX:ACO.X](#)) — a stake Atco paid \$325 million for in 1980. Today, that stake is worth more than \$5 billion. It yields 3.7%, so if you're an income investor, it ought to be on your watch list. FYI, the analysts have ATCO as a "hold."

The second selection

WestJet Airlines Ltd. ([TSX:WJA](#)), Canada's second-biggest airline, just announced that Swoop is the name of its ultra-low-cost carrier (ULCC); it begins actual flights next June, beating **Air Canada** ([TSX:AC](#))([TSX:AC.B](#)) to the punch.

I've got no complaints about Air Canada's service, other than the fact they don't have enough people helping customers at Terminal 1 in Toronto. Ironically, that's probably how it keeps profits so high.

I believe that Air Canada could be in for a big surprise once WestJet and the rest of ULCCs get up and running. It might have to work for its money.

I don't see how WestJet isn't a "buy" when Air Canada is a "strong buy."

The third selection

The Canadian investment landscape continues to transition from mutual funds to ETFs, albeit at a slower pace than I might have expected given how much more user-friendly ETFs are, but we Canadians love the status quo and high fees.

AGF Management Limited ([TSX:AGF.B](#)) is the forgotten player in the Canadian investment arena, but moves by management in recent years to buy some interesting institutional investment firms, along with a Boston-based ETF company, has it looking a lot more appetizing to larger potential acquirers.

Last October, I [recommended](#) AGF stock when it was trading at \$5; today, at a little more than \$8, I still feel like it's got double digits in its future, possibly before the end of the year, although that's probably wishful thinking.

CEO Blake Goldring has righted the ship, giving it time to clean itself up for a potential sale. Other than an economic catastrophe, I'm not sure there's a downside to owning AGF stock at this point.

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1. Investing

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2. TSX:ACO.X (ATCO Ltd.)
3. TSX:AGF.B (AGF Management Limited)
4. TSX:CU (Canadian Utilities Limited)
5. TSX:MRU (Metro Inc.)

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