Aritzia Inc. Is a Great Stock to Buy on the Dips

Description

Aritzia Inc. (TSX:ATZ) went public on October 3, 2016, at $16 a share. It closed below $16 for the first time on February 3, 2017. Since then, it's closed above its IPO price on just 11 occasions compared to 156 days under $16.

It hasn't been a winner for those holding it since the IPO over a year ago.

However, I went back and looked at the share price on a weekly basis since its October 3rd IPO, and I've found that you can make money on Aritzia by buying its stock on the dips.

How's that, you say?

Well, three times over the past 13 months, it's lost more than $1 off its share price over the course of a week's trading, only to regain most or all of the losses within the next two to three weeks of trading.

The first time was the week of October 31, 2016, when it lost $1.44, or 7.7%, of its value to $17.20. Eleven days later on November 21, 2016, it traded above $18.64, the price it closed at on October 28, 2016.

The second time ATZ stock lost more than $1 on a week's trading was May 15, 2017, when it lost $1.73, or 10.8%, of its value to $14.29. Eight days later, it traded as high as $15.57, recovering almost three-quarters of its losses.

The most recent and last time it's lost more than $1 in a week's trading was October 2, 2017, when it lost $1.47, or 9.9%, of its value to $13.38. Given its trading pattern, I would expect that it will trade higher than $14 sooner rather than later, most likely before the end of October.

Two ways to play this

If you're like me and are not a fan of Aritzia's business, you can still make money buying and selling its stock over very short periods by generating a few percentage points profit each time it drops a buck or more, but that takes a lot of intestinal fortitude and a commitment to stick to the plan.

If you're a buy-and-hold investor this quick-hit scenario is clearly not for you. However, if you don't mind a little risk, it might be worth trying the next time Aritizia drops more than $1 over a week's trading.

As I said in August, I believe Aritzia's business model is on shaky ground. It's spreading itself too thin at a time when retail is struggling to find a bottom.

There's no way I'd be buying its shares for the long haul, but if you think it's the bee's knees and ultimately will be trading above its IPO price and well into the $20s, buying on the dips will allow you to acquire shares at discounted prices — something you won't be nearly as successful accomplishing by dollar cost averaging.

Warren Buffett is known to say how much he likes to see his favourite stocks drop in price so he can buy more shares. Billionaire or not, the same principle applies to you. Performed over the course of several years, the gains can be quite significant.

But you've got to believe in the future success of Aritzia or you won't follow through on the plan. That's because when people like me wonder out loud if $10 is the next stop for ATZ stock, you'll be scared out of your position; I guarantee it.

Bottom line on ATZ stock

Aritzia's same-store sales in the second quarter, which includes e-commerce, grew 5.4%. By comparison, **Lululemon Athletica Inc.'s** (NASDAQ:LULU) second-quarter same-store sales increased by 7%, driven by strong e-commerce sales and 2% brick-and-mortar growth.

Lululemon is a far more mature business and shouldn't be doing better on a comp basis than Aritzia. To make matters worse, Aritzia's Q2 2018 comp was one-third last year's number, and third-quarter results could also be lower than last year, suggesting there could be further weakness in its stock price heading into 2018.

I wouldn't buy ATZ, but if you must, buy on the dip.

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washworth