2 Stocks I Wouldn't Dare Buy on the Dip

Description

Buying the dip is a great strategy provided you're purchasing shares of a quality business whose long-term thesis is still intact. Typically, short-term news creates dips that are suitable entry points for investors, but one must be careful not to buy shares of a business whose future is clouded by a high degree of uncertainty. That's why it pays to be an owner of shares in a business you can understand, whether that be energy, tech, or the financial services industry.

If a dip is triggered by evidence of a deteriorating moat or a sudden and unexpected change in a firm's business plan, investors should be cautious when attempting to buy shares on the way down.

Here are three seemingly cheap stocks that have dipped in recent months that may be a trap that could hurt value-conscious contrarian investors not only over the short term, but also over the long haul.

Cott Corp. (TSX:BCB)(NYSE:COT)

Cott has clearly lost its fizz with investors of late, as shares are down ~18% from their 52-week high. This former off-brand soda firm recently finished disposing of its beverage-bottling business this January in the midst of continued secular decline in the carbonated soft drink industry.

The office water, coffee, and tea business will be the main source of growth going forward, and while it may seem more promising than off-brand soda, Cott's acquisitions to bolster its position have not helped the company's debt levels, which imply US$86 million a year in annual interest payments, as fellow Fool contributor Will Ashworth pointed out.

With a 2.34 debt-to-equity ratio and a great deal of uncertainty surrounding the company's new growth trajectory, I'd advise investors to look elsewhere for contrarian value, as the business is definitely not as sweet as it once was.

Power Corporation of Canada (TSX:POW)

Power Corp. is an intriguing firm with a 4.88% dividend yield that may be a siren song to income investors. The massive holding company has various interests across the Canadian financial services sector, Europe, and the U.S. While it may seem like a deep-value opportunity on the surface, the conglomerate starts to lose appeal when you take a look at what's under the hood.

You're getting exposure to some promising Canadian insurance businesses, but you're also exposed to some industries that I believe are in severe secular decline — most notably mutual funds. The company has interests in **IGM Financial Inc.** (TSX:IGM), a company whose bottom line is beefy thanks to the sale of high-fee mutual funds. With the growing popularity of low-fee alternatives, IGM stands to take a gradual hit to its bottom line, as pricing pressures force the company to lower its fees and invest in technologically advanced "robo-advisors."

Moreover, there are various other businesses under the Power Corp. umbrella that may cause an investor to think twice before purchasing shares on the recent dip. It's tough to really understand what you're exposed to without taking the time to examine the details. I think the interest in IGM is enough reason to look elsewhere.

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