This Dipped Stock Is a Delicious Addition to Any Investor's TFSA Portfolio

Description

As a contrarian investor, it's hard to resist aggressively hitting the buy button after a particular stock has dipped by a substantial amount over the short term. When the markets are down, and all the stocks on your radar have fallen from glory, it really feels like being a kid waking up on Christmas morning.

While buying shares of great businesses that have taken a gut-punch along with the broader markets is a wonderful strategy, dips caused by unique events like poor quarterly results require much more homework on the part of the investor. These sudden quarter- or event-induced declines may be completely warranted, but frequently, such dips are overblown or underblown, depending on the investor sentiment prior to the occurrence of the event or quarter that triggered a drop.

As such, investors need to dig into the financial results if a stock dipped after a quarter, or they need to take a top-down approach to re-evaluate their original investment thesis in order to determine if a stock is still a buy at its discounted price given the circumstances have changed.

If you spot an overblown dip, you'll not only receive a nice margin of safety, but odds are, you'll receive a nice short-term boost once the general public discovers that a correction was overblown. The public will be quick to correct shares to the upside (or downside) following a highly publicized opinion from a commentator in the mainstream financial media or a well-known analyst.

Without further ado, here's a stock that looks like terrific buy on the dip:

Constellation Software (TSX:CSU)

Constellation stock got punished, shedding over 18% from peak to trough thanks mainly to the release of Q2 numbers (sparked a 7% drop) that the public didn't like. To make matters worse, there wasn't an earnings call that may have rung alarm bells in the ears of some shareholders.

In spite of the disastrous setup, the quarter wasn't as ugly as the market moves may suggest. Revenue popped 25%, and BMO Capital slapped a price target upgrade, because they believe the company is "exceptionally well managed" and will continue to surge higher over the long term.

Constellation is what I like to call a "smart-beta" stock. You're getting long-term momentum, a fair degree of value after the drop, and a beta that's historically been calm for a high-growth tech play. While the dip may be causing some to panic, I think it's an opportunity for Canadian investors looking to increase their exposure to the software industry.

Fellow Fool contributor Brad MacIntosh put it best: "One bad quarter will not sink this software ship; this is more of a reboot." I think he's right on the money and would encourage investors to treat the dip as a discount on a company that doesn't have dents in its fundamental armour. There's just a dent in the stock.

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