“Trumped” Stocks That Could Cripple Your Portfolio

Description

Buying-the-dip is a famous contrarian investing strategy that’s taken off thanks in part to Warren Buffett and his disciples’ contrarian value approach to stock selection. While the strategy is a great way to catch cheap stocks that have been overly punished by the public, it only works to an investor’s favour if the company behind the stock isn’t in dire shape.

Mad Money host Jim Cramer continually urges investors to do their homework so that they can buy damaged stocks, not damaged businesses. In other words, investors need to ensure enough due diligence to be able to tell if a stock’s sell-off is warranted or not.

Does the dip-inducing material event affect the long-term fundamentals? Or is it merely short-term noise that’s caused traders to panic?

If the long-term story is still sound, you should buy a dip, but if there’s a good reason behind a stock’s decline, you should probably take a rain check on purchasing a dip, as you may be stepping into a value trap if the company behind a stock is also damaged.

Without further ado, here are two damaged stocks that I think could be headed for a far larger plunge:

Magna International (TSX:MG)(NYSE:MGA)

Back in July, I warned investors not to get caught holding Magna stock (or any other auto part manufacturers), as Trump’s tariffs would have had dire consequences for the Canadian industry as a whole. Further, I encouraged investors to take it a step further by shorting Magna to profit from the demise of the auto part makers and the inevitable disappointment that I thought was on the horizon.

Fast forward to today, just over a month after my warning and Canada’s big three auto part makers are down by double-digit percentage points. If you shorted Magna as I recommended, you’d be sitting on a nice gain, as Magna has fallen 14% since my short recommendation was published.

With Magna now in bear market territory, I think there's more pain to come, so if you're short, stayshort.

I don't care how cheap the stock may seem with its single-digit P/E. I still wouldn't touch it with a barge pole, especially when you consider that Trump can easily raise his tariffs at a whim, which would crush the auto part makers. For now, I think Magna is heading back to $60.

Saputo (TSX:SAP)

It's been a rollercoaster ride for Saputo over the past few years, and while some may think the company's overdue for a breakout, I'm in the camp that believes it's heading for a breakdown.

At the time of writing, the stock's down around 13% from its all-time high, and although shares may seem cheap based on a P/B basis, I think the macro picture is hideous and wouldn't be surprised if the stock became much cheaper.

In case you're not up to date with the dairy industry, there's a cheese glut, and Saputo's COGS (costs of goods sold) look ripe to increase as transportation and raw material costs move to the uptrend. Add Trump's tariffs into the equation, and it's likely that Saputo's bottom line is going to take a punch to the gut.

Don't get me wrong. Saputo is a reliable operator, but the broader industry looks spoiled in my opinion, and until market conditions show signs of meaningful improvement, my portfolio will remain lactose intolerant.

Saputo stock could be heading to the low $30 levels over the next year, and if shorting stocks is your thing, Saputo might be your horse.

Foolish takeaway

Both Magna and Saputo are facing their independent troubles, and with Trump slated to rub salt in each company's wounds, I expect an exorbitant amount of pain will felt be felt by shareholders over the next year and beyond.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MGA (Magna International Inc.)
2. TSX:MG (Magna International Inc.)
3. TSX:SAP (Saputo Inc.)

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1. Msn
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