# These 2 Irrationally Oversold Stocks Could Become the Biggest Winners of Q4

## Description

There's empirical evidence out there that suggests that developed markets are semi-strong efficient. If you're not familiar with the concept of market efficiency or the market efficiency hypothesis, this "semi-strong" efficiency means that fundamental analysts, on average, will stand to achieve an excess risk-adjusted return (or alpha) that's pretty close to nil.



This is because the markets adjust promptly to newly released pieces of information, and as a result, the market value of a stock is seen as the same as the intrinsic value of a stock for those who firmly believe the markets are efficient.

Due to anomalies and the irrational emotional aspect of people, however, there's also empirical evidence that suggests that markets aren't as efficient as some scholars are led to believe.

For the markets to be completely efficient, people would need to be rational and unemotional, and as you may know, that's an absurd assumption to make.

A considerable amount of retail investors err on the side of fear due to a concept called loss aversion, which essentially means that for a large chunk of investors, the disgust from a loss is higher than the satisfaction from a gain of the same magnitude.

You've probably heard of one of Sir Isaac Newton's most famous laws: every action has an equal and opposite reaction. Well, forget that, because these rules don't apply in the world of behaviour investing.

A 10% gain is enough to put a smile on anyone's face. It'll give you a short-lived dopamine rush, but a 10% loss would be enough to make somebody sick, ruining their day as they question the reasoning behind why they decided to buy the stock in the first place.

It's this "act on fear" mentality that causes investors to "herd" together when times get tough, severely exacerbating market declines in the process.

While the markets may be back on a smooth trajectory after a rocky start to the year, overreactionsand under reactions are happening across individual stocks themselves.

It's these unique crashes that investors need to keep an eye on so that they can increase the chances of catching a temporary stock mispricing by Mr. Market.

Consider **Shaw Communications** (TSX:SJR.B)(NYSE:SJR) and **Stars Group** (TSX:TSGI)(NASDAQ:TSG), two wonderful businesses that are down 20% and 36%, respectively, from their all-time highs. Both moves, I believe, are a severe overreaction that contrarians should pounce on.

Both companies have impressive long-term growth profiles that are completely misunderstood by investors. And both stocks have been punished because of events that, I believe, will be forgotten in three years from now.

Shaw is shooting to grab an equal 25% slice of the Canadian wireless market, and while there have been some bumps in the road, management's ambitious goals are still undoubtedly within reach.

It's just a matter of time before investors gradually warm up to the growth stock that's priced like a value stock. Maybe it's the fat 4.7% yield?



Stars Group, on the other hand, is a growth star that's been plagued with a series of unfortunate events, each one serving to exacerbate the negativity of the one before it. I think things have gotten out of hand, and investors are losing touch with the longer-term story behind Stars Group.

Integration issues may be far from ideal, but the market opportunity is vast, and as the results finally turn around, I think investors will be pleasantly surprised as the stock corrects to the upside.

**Foolish Takeaway**

The markets may be somewhat efficient, but that doesn't mean you can't crush them, especially if you can spot overreactions that'll allow you to grab a stock whose market value is substantially lower than its intrinsic value.

Shaw and Stars are two stocks that I believe are oversold, undervalued, and are overdue for a significant correction to the upside.

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