Dollarama Inc (TSX:DOL) Rocked by Short-Seller Report: What Should Investors Do?

Description

Last year, **Dollarama Inc** (TSX:DOL) was flying high and it was one of the top stocks on the TSX. However, so far in 2018, the stock has run into trouble, declining by more than 30% and recently hitting a new 52-week low.

Most recently, the stock is down as a result of a report from Spruce Point Capital.

The investment management company believes that Dollarama's stock could decline another 40% in price, stating in a tweet on Wednesday that this would be as a result of a "failure to hit targets, margin +multiple contraction."

Should investors be worried about this report?

Before investors panic and look to sell the stock, they should consider the source of the information and the substance behind the message itself.

Spruce Point is an investment company and says its focus is on "short-selling, value, and special situation investment opportunities." Short-selling is at the top of its list, and investors should always be hesitant when it comes to overly-bearish reports, particularly made by a company that could stand to profit from the stock dropping in value.

There's a good possibility, especially since I couldn't find any disclosure related to the report, that Spruce Point could very well have an interest in seeing the stock price go down in value, which would suggest a level of bias in the report, and that would undermine its usefulness.

I briefly skimmed through the report, and while there were good, cogent arguments made for why the company could be in trouble, I didn't find them to be revolutionary or having uncovered something that everyone else missed.

The danger is how easily investors can be influenced by these types of reports.

A great example of that is what happened to **Shopify Inc** (TSX:SHOP)(NYSE:SHOP) stock a year ago when its share price was rocked by a short-seller report as well. It was even targeted again this year as well. However, both times the stock would eventually rise after seeing a decline in price immediately after.

What does this mean for the stock?

Ultimately, nothing has significantly changed about Dollarama's business model. While the company is coming off a disappointing quarter where questions about growth came up, there's no guarantee that the store is now destined to keep missing its numbers.

It could just be a bad quarter that the company will eventually rebound from. When things go bad for a company, sometimes there seems to be an abundance of bears that come out of the woodwork that want to pile on, which is why it's important to pay close attention to the substance of what's actually being said about a stock.

Over the long term, I actually wouldn't be surprised to see Dollarama to continue to show strong growth.

Right now, the economy is doing well, but sooner or later that won't be the case, and rising interest rates will accelerate that process as well. That will mean less disposable income for consumers, which would make dollar stores like Dollarama more attractive options as people look for ways to tighten up their budgets to be able to pay all of their bills.

For that reason, I still see Dollarama stock as being a good long-term buy that could turn out to be a bargain today.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:SHOP (Shopify Inc.)
2. TSX:DOL (Dollarama Inc.)
3. TSX:SHOP (Shopify Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing

Date
2025/08/27
Date Created

2018/11/03
Author
djagielski