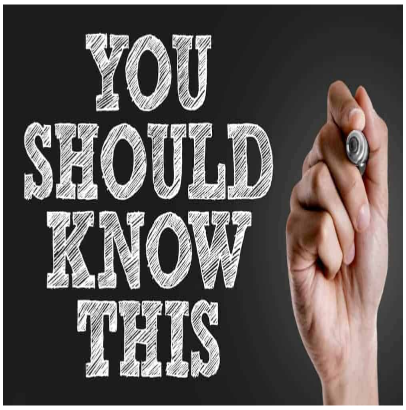

Beginner Mistake: Why You Shouldn't Follow Sell-Side Analyst Recommendations Blindly

Description

Empire Company (TSX:EMP.A) is arguably the biggest turnaround story of the last five years. But if you listened to the overly bearish sell-side analyst recommendations, you missed the boat on over 140% gains in just under three years' time.

Back in January 2017, when the stock had bottomed after suffering a 52% peak-to-trough drop, I made Empire one of my top three contrarian picks for 2017 despite negative commentary from analysts covering the name. The timing of my recommendation was impeccable, as shares have been rocketing higher ever since, doubling in around two years.

"The company has terrific brands in Sobeys and Safeway, which will always be household Canadian names," I said. "Empire may be facing difficult times right now, but I don't think the business is permanently broken."

It's amazing what a few years, a new CEO, and a turnaround plan can do for a company stuck in a convoluted operational mess.

Empire's brands were robust enough to ride out the downturn, and thanks to Michael Medline, the newly hired CEO at the time, who I called "a fantastic choice" given his background in the Canadian retail scene, the comeback came to fruition and those who kept faith were rewarded handsomely.

What did analysts get wrong that Foolish contrarians didn't?

It's easy to form a negative view on a stock that's already lost half of its value. Many sell-side analysts were skeptical over the hiring of Medline, citing his lack of experience in grocery as the primary reason for their concern.

Yes, Medline wasn't a grocery turnaround specialist, having spent his time at **Canadian Tire**, but he sure is known as one now after just three years at Empire's helm.

In addition, many sell-side analysts noted that it'd take many years for meaningful change to work its way into the financial results.

While true, stocks usually react to subtle progress over time, well before a turnaround plan is completed, so if you waited for positive news to release, you probably missed out on the rally entirely because Empire's plan worked, and it a lot worked faster than most thought.

The Empire strikes back

While Empire stock isn't as cheap as it used to be, the company is still in a terrific position to weather the next recession given it's one of the few consumer staples stocks on the TSX.

Empire is now firing on all cylinders, and with the operational hiccup now behind it, the company looks poised to continue outperforming, regardless of which direction the markets are headed.

Foolish takeaway

Sell-side analysts tend to herd together to avoid being called out by the Street.

As a contrarian, it pays massive dividends to take analyst commentary with a grain of salt and do your own research. In the case of Empire, you would have sold the stock at the bottom if you followed the herd who view analyst recommendations as gospel, which they're not.

It's hard to be a contrarian, and it's even harder when your peers would view you as foolish for doing so. Fortunately, here at the Motley Fool, we're not afraid to look Foolish by being a contrarian if we have enough conviction to go against the grain.

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