2 Oversold Stocks to Buy Right Now

Description

One of the most reliable ways to time an entry into a position is to look at the 14-day relative strength indicator (RSI). The 14-day RSI is a momentum indicator that compares the magnitude of gains and losses to determine if a company's stock is either overbought or oversold.

A 14-day RSI below 30 is an indication that the stock is oversold and due for a bounce. The opposite is also true. Once the 14-day RSI breaches 70, the stock is considered overbought and may be due for a pullback.

It is important to note that momentum indicators should not be used in isolation. A stock in oversold territory doesn't mean it's a good buy. Fundamentals should always play a part in your due diligence. With that in mind, here are two oversold stocks that are worth adding to your portfolio.

Badger Daylighting

At one point this year, **Badger Daylighting** (TSX:BAD) was one of the top-performing stocks on the TSX Index. Through July, its stock price jumped approximately 50% in 2019. Unfortunately, the good times didn't last. It has since been significantly volatile. In the span of two months, it has had five streaks of double-digit swings. Shareholders are now sitting on yearly gains of approximately 18%.

Now in the midst of its third downswing in as many months, it is now firmly in oversold territory with a 14-day RSI of 23. It last dipped below 30 in mid-August before rebounding by approximately 10% in the week following. These mark the only two times the company has been oversold from a technical standpoint this year.

Badger is currently trading at a cheap 13 times forward earnings and is expected to grow revenue and earnings by double digits. In 2020, earnings per share are expected to jump to $2.72 from $1.85 — a 47% jump. Analysts have a one-year price target of $54.06, which implies 42% upside from today's price of $37.85.

Imperial Oil

It has been a rough go for Canada's oil patch. The TSX Oil & Gas Index has lost 25% over the past year. All asset classes have been impacted, including oil majors such as **Imperial Oil** (TSX:IMO)(NYSE:IMO)

Although Imperial held its own throughout the year, it is stuck in a two-week decline in which its stock has touched yearly lows. The stock is now down approximately 9% in 2019, and it has a 14-day RSI of 27.

From a technical standpoint, Imperial has been stuck in neutral for most of the year. The only other time its 14-day RSI dipped below 30 was in late August before it rebounded by 16% in the weeks that followed.

There is no question that Imperial Oil is cheap. It is trading at 11 times earnings and is now trading below book value (0.97). It hasn't been this cheap since 2013, and analysts expect 25% upside from today's prices.

The best time to pick up oil majors is in an oil bear market. They trade at cheap valuations and are better positioned to weather prolonged pressure on commodity prices. As a bonus, Imperial Oil shareholders get paid to wait for a price rebound. It is a Canadian Dividend Aristocrat, and Imperial Oil has grown its dividend for 25 consecutive years. This is the eighth-longest streak in Canada, and the longest among any energy-listed company on the TSX Index.

Patience will be required as the sector is volatile, but now appears a good time to start a position.

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1. NYSEMKT:IMO (Imperial Oil Limited)
2. TSX:BDGI (Badger Infrastructure Solutions Ltd.)
3. TSX:IMO (Imperial Oil Limited)

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