DANGER: These 2 Blue-Chip Stocks Plunged ~25% in a Day

Description

Just over a month ago, **BlackBerry** (TSX:BB)(NYSE:BB) and **Gildan Activewear** (TSX:GIL)(NYSE:GIL) were what you'd consider as garden-variety Canadian blue-chips. They were both relatively large and well-established (with market caps around or above $5 billion) firms with sound balance sheets, and appeared to be on fairly stable footing.

That was until the stocks of both companies shed around a quarter of their value in a single day following the release of their respective quarterly results. Such single-day moves are typical of penny stocks and speculative securities in sexy, bubble industries, not of cash-flow-generative firms like BlackBerry or Gildan, which have been publicly-traded entities for many years.

If you got caught with either name in your portfolio, you're probably licking your wounds, wondering what went wrong, and how you could have protected yourself from such drastic downfalls.

While you do need a strong stomach to do well in investing, a 25% single-day plunge exceeds the pain threshold of many investors. As such, one is more likely to make a rash decision like panic selling without taking the opportunity to think things through.

This demands the question: how is one to avoid getting caught offside with troubled large-cap stocks?

While there's no way to avoid substantial downside over the near term, there are some instances where the writing is already on the wall, and for those who care to look, substantial pain could be avoided.

As you may know, I called the **Dollarama** and **Cineplex** plunges months prior to the fact. Not because I had a crystal ball handy, but because industry trends led me to believe that the prices paid for such "growth" names were no longer warranted. You'd be surprised what a quarter of slowed growth could do to a stock if expectations are already sky-high.

In the case of Gildan, I warned investors many months ago about the stock's overvaluation, eroding moat, and competitive pressures that would weigh on the top-line in spite of the firm's stellar cost advantages.

This Friday, shares plunged violently in response to lower sales guidance (as one would expect given industry headwinds) and sub-par numbers that fell short of the expectations of many. The quarter seemed to be a big surprise to the downside when it shouldn't have been, given the rich valuation, lack of catalysts, and unimpressive numbers from prior quarters.

Unfortunately, it took a 26% drop in the stock to convince analysts to lower their price targets substantially. And if you looked to them for guidance, you got hurt.

The BlackBerry single-day plunge was harder to foresee because of the low visibility and complicated nature of its business. BlackBerry continues to move deeper into the field of enterprise software after getting squeezed out of the hardware market against its will.

There are a tonne of moving parts at BlackBerry. And after some strategic acquisitions, the introduction of new services, and other significant transformative changes, it’s easy to lose sight of the firm’s near-term trajectory.

Many see BlackBerry as a potential turnaround candidate with CEO John Chen at the helm and legendary investor Prem Watsa maintaining his confidence in the business. Unfortunately, given the tremendous volatility in the stock, overextended moves were a given, and it was tough to steer clear of BlackBerry’s latest fallout.

Just because BlackBerry is down, though, doesn’t mean it’s out. A longer-term time horizon is needed to profit from such companies undergoing a continued transformation.

Rome wasn’t built in a day, after all.

Stay hungry. Stay Foolish.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. NYSE:GIL (Gildan Activewear Inc.)
3. TSX:BB (BlackBerry)
4. TSX:GIL (Gildan Activewear Inc.)

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