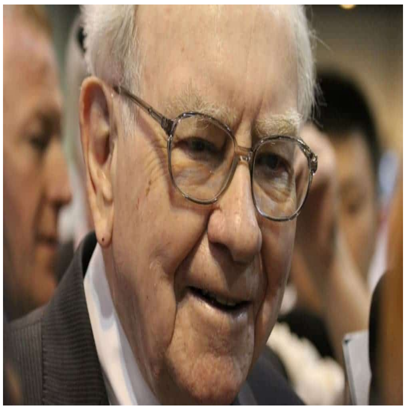

Invest Like Warren Buffet: Avoid These 3 Falling Knives

Description

With stock markets now beginning to sell off, contrarian investors, like Warren Buffett, now have quite a few options to choose from. Contrarian investors look for potential value in companies they feel have been hammered unfairly by investors.

Today I'm going to discuss three contrarian-looking companies with which I'd suggest caution.

Gildan Activewear

Perhaps in a dying industry, **Gildan Activewear** (TSX:GIL) has hummed along quietly as one of those oft-forgotten companies producing essential goods we often take for granted. The Canadian supplier of underwear, t-shirts and other textiles had an interesting earnings release at the end of February.

The company increased its dividend distribution by 15%. Their profit forecast underwhelmed investors and revenue declines were worrisome to many. This news item essentially wiped out all gains investors have seen over the past five years.

Some contrarian investors might think now may be a good time to jump in and pick up the pieces (and a juicy dividend to boot). However, I don't see the long-term outlook for Gildan improving over time. I would caution investors with a long-term time horizon to search elsewhere for yield and value at this time.

Extendicare

Extendicare (TSX:EXE) is not really what one may qualify as a falling knife. While the company's share price is down approximately 20% over the past three years, many view this as a safety/defensive play. I disagree for a few reasons.

My take on the aging boomer trade is that most, if not all, of the future growth expected in companies like Extendicare, that provide home care services to retirees, has already been priced in by financial markets.

Additionally, I believe key risks aren't being priced in adequately. These include high levels of competition, particularly in key Canadian markets in which Extendicare operates.

Another key risk is the rising cost of healthcare workers, which will outpace inflation over the long term. Thus, margin deterioration is not being factored in right now to the appropriate degree. I worry that investors looking for sectors that may bounce back may incorrectly bet on this segment of the market.

I believe this market segment will likely decline for the next 5-10 years because of the real supply/demand issues coinciding with cost uncertainty.

Teck

Canadian resource/mining company **Teck Resources** (TSX:TECK.B) has been on a very rough ride of late, down approximately 50% on a year-over-year basis. This market decline has been driven by a number of issues.

The recent news of the company's decision to withdraw its application for its massive Frontier Oil Sands mine and take multi-billion dollar write downs accordingly on both Frontier and Fort Hill's oil sands mines drove investor sentiment lower.

The company has also cut its sales forecast for its metallurgic coal operations, leaving investors without anything positive to hang their hats on, hence the selloff.

For contrarian investors, I think Teck is just too risky at this point in time relative to other options on the **TSX**. I would encourage those looking for bargains to look elsewhere at this point in time.

Stay Foolish, my friends.

CATEGORY

1. Dividend Stocks
2. Investing

POST TAG

1. canada
2. contrarian
3. Warren Buffet

TICKERS GLOBAL

1. TSX:EXE (Extendicare Inc.)
2. TSX:GIL (Gildan Activewear Inc.)
3. TSX:TECK.B (Teck Resources Limited)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Tags

1. canada
2. contrarian
3. Warren Buffet

Date
2025/07/20
Date Created
2020/03/19
Author
chrismacdonald