



Got \$1,000 to Bet? Buy These 2 Contrarian Stocks Right Now

Description

I generally don't recommend buying or trading on momentum stocks. But if you are looking for shares that can make you some quick bucks in a short period, you might want to consider high-momentum stocks. This is a contrarian strategy that might work in the short term. But trade with caution.

A contrarian investment

Now, when we speak of short-term gains, the risk involved is huge. Equity is a long-term investment instrument that balances short-term volatility and gives a handsome return if you stay invested. Hence, I would suggest investing if you are willing to bet \$1,000 and are prepared to lose in the short term. There is a significant upside, and you can limit your downside by selling the stock.

Air Canada stock

The first stock in my contrarian list is **Air Canada** ([TSX:AC](#)). There are many reasons to be bearish but only one reason to be bullish, and that is hope. The airline is suffering a multi-year loss, and it will be until it stops burning cash. There is nothing the airline can do about its situation other than cut costs, downsize business, and fly cargo if not passengers.

When you have an airline operating at just 20% capacity, it does not make fundamental sense to invest in the stock. But some positives still keep investors bullish. At a time when passenger airlines have gone bust, with many going bankrupt and many receiving a bailout, AC continues to stand strong without a bailout. AC has \$8 billion in liquidity that can keep it running at least for another year.

Moreover, there is pent-up demand for air travel. Any news of travel restrictions easing or a government bailout could send the stock up more than 25% to above \$27. Moreover, strong third-quarter earnings from U.S. airlines will drive AC stock. [The stock surged 80%](#) in November on vaccine news. That was a good time to encash some profits.

When investing in AC stock, buy the stock at \$20-\$21 and sell the stock at \$27, because the

fundamentals will not support this price point. The airline is likely to report more than a \$4 billion loss in 2020, and it will take at least five years to return to profit. Until then, the stock will maintain tepid growth. If you invest \$700 in AC through the Tax-Free Savings Account (TFSA), you can earn \$200 in the short term.

Bombardier stock

My second contrarian pick is **Bombardier** ([TSX:BBD.B](#)), a company known for making planes and trains. The company has been selling off its loss-making businesses to offload the US\$10 billion debt sitting on its balance sheet. Once a \$36 billion valuation company (in 2000), it is now reduced to \$1.78 billion. Its downfall began in 2013 when its CSeries commercial aircraft started having issues, engine failure, development delays, and cost overruns.

Bombardier [completed](#) the sale of its rail business to Alstom for €5.5 billion. The deal will help Bombardier reduce its debt and avoid bankruptcy. Bombardier stock surged 66% year to date. The cash injection would give some relief and drive Bombardier stock.

Buy the stock now at \$0.7 and sell it as it crosses \$0.95-\$1.0, as the stock can't sustain the rally. The Alstom deal will help Bombardier repay some of its debt and survive the pandemic crisis. After the deal, Bombardier would become a pure-play business jet business, but even that business will take time to recover from the pandemic. It expects business jet demand to fall by 30-35%.

Moreover, Bombardier cannot survive long with US\$6.5 billion in net debt. Shareholders would still be invested in a loss-making company which is unlikely to return to profit in the mid-term. If you invest \$300 in Bombardier through the TFSA, you can earn over \$120 in the short term.

Investor takeaway

AC and Bombardier are risky bets, and that is why they are trading at low prices. They are momentum stocks that rise and fall significantly. Their high volatility and weak fundamentals make them a trader's choice and a value investor's nightmare. Hence, when trading in these stocks, maintain caution. There are better stocks with strong fundamentals that can give good returns in the long term.

CATEGORY

1. Coronavirus
2. Investing

TICKERS GLOBAL

1. TSX:AC (Air Canada)
2. TSX:BBD.B (Bombardier)

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