Value Trap: 2 Stocks to Not Buy at the Dip

Description

There is a famous quote by Ben Graham that Warren Buffett reiterates: “Price is what you pay. Value is what you get.” Buffett loves buying value stocks at a dip. But not all stocks that have dipped significantly are value stocks.

A value trap

A value stock has strong fundamentals to grow profit or sustain its current cash flows. The reason why that stock is cheap is that a short-term crisis has created a sell-out.

But the problem with such sales is you have to be vigilant to avoid buying a bad product. Some stocks have dipped, because they don’t have a promising future — just bouts of lottery ticket wins.

Facedrive stock

Facedrive (TSXV:FD) stock soared 712% between October 2020 and February 2021 on the back of the electric vehicle (EV) wave. That was when the Joe Biden presidential win created a fervour in everything environment friendly. Facedrive, which markets itself as the “people-and-planet first” tech ecosystem, attracted investors’ attention for its go-green tree-planting initiatives. But in the end, business is business. Marketing can only give you a hologram of success. But it’s the numbers that keep investors engaged.

And Facedrive couldn’t produce numbers. It started as a ride-sharing business, and when you look at its financial figures, you will see a failure brewing. Facedrive’s revenue from its core business of ride sharing fell 72.5% year over year in the first quarter. Yet the press release headlines read, “Facedrive Reports Record Revenues in Q1 2021.” I don’t know how to make sense of it.

The company's overall revenue surged 34% to $4.25 million, of which $4.09 million (96% of its revenue) came from the two acquisitions — Foodora and Steer — it made last year. I could even discount the ballooning losses, considering the business is in a nascent stage. But I can't let go of the fact that the so-called ride-sharing company is now a food-delivery company.

A company that is not sure of its business is nothing but a value trap. Facedrive stock has dropped over 75% from its February high. If you think $14.52 per share is a cheap price, I'd bet two cheeseburgers that it will give you better value than Facedrive ever will.

Shaw Communications stock

Shaw Communications (TSX:SJR.B)(NYSE:SJR) is not a stock you would want to buy at the dip. The stock surged 44% in mid-March after **Rogers Communications** revealed its plans to acquire Shaw. Shaw's stock price surged only 25% in nine years from January 2011 and 2020. The only reason why investors stayed was for its dividends, which have not grown consistently. So, you can't quite call it a Dividend Aristocrat.

Shaw operates in the telecom market that is dominated by **BCE**, **Telus**, and Rogers; together, they control more than 90% of the market. The acquisition by Rogers is the best value Shaw's shareholders can get. But investors have already priced in the acquisition, thereby limiting its upside. Now, any possible move in the stock will likely be a dip, depending on how the deal and the several regulatory approvals progress.

Long story short…

If you are looking for cheap stocks, be vigilant and seek only those stocks that can grow revenue.

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Date
2025/08/14
Date Created
2021/06/28
Author
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