Investor Beware: 1 Discounted TSX Stock That Could Have Further to Fall

Description

It's a wise idea to act as a contrarian investor with discounted TSX stocks in this seemingly unstoppable market that's gone without a 5% pullback in a staggering 200 sessions of trade. While buying on 1-3% dips may prove to be wise in this robust market with all this liquidity, it may not be wise to reach for the fastest-falling knives, unless you've got a high tolerance of pain or a plan to scale into a full position gradually over a lengthy period of time.

In this piece, we'll have a look at one discounted Canadian stock that I think may be too early to buy. The name may seem to offer impeccable value at current levels. Still, the negative momentum may not subside for quite some time. As such, those keen on betting on either name should stick with a dollar-cost averaging (DCA) strategy, which I think acts like a glove to protect you from getting nicked by the seemingly reckless attempt to catch a falling knife.

Without further ado, consider **Magna International** (TSX:MG)(NYSE:MGA): a contrarian stock that's off over 20% from its 52-week highs, with no bottom (at least not one I can see!) in sight.

Magna International: A discounted TSX stock rolling over

Magna International is a cyclical stock that could enrich you with massive gains if you catch it at the right moment. Indeed, buying shares ahead of the next economic cycle has proven to be profoundly profitable. Although I'm not against buying shares of the Canadian auto parts maker here, as I still think we're in the early to mid-innings of the current cycle, I think that those keen on buying on the latest dip should proceed with caution.

There's nothing wrong with being a cautious bull, especially these days, with the horrific pandemic and a growing list of uncertainties. While the easy money has already been made in Magna stock, there are still many catalysts that could fuel the stock's move to the next level. Most notably, the rise of the next generation of electric vehicles could easily send Magna stock back into orbit. The valuation, which still looks modest at 10.9 times trailing earnings, is compelling. Still, many would agree that the road behind was smoother and more attractive than the road ahead.

As such, the low trailing P/E multiple may not represent real deep value. So, investors should focus on the environment ahead, which could take a turn for the worst. After a 20% pullback, I wouldn't look to jump in here. But if you think the Street is wrong about the bumpier road ahead or think Magna could win the right to make an **Apple** Car, the stock may prove to be severely undervalued.

Personally, I'd wait for Magna to fall to the low $80 levels before considering a position. I've owned the name in the past but will not be getting in anytime soon, as the stock continues rolling over.

The Foolish bottom line

Magna is a well-run company with great stewards. But the macro backdrop could get much darker over the next 18 months. As such, investors should conduct a thorough analysis of the company before initiating a position, rather than simply concluding the discounted TSX stock is undervalued due to its low P/E multiple.

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