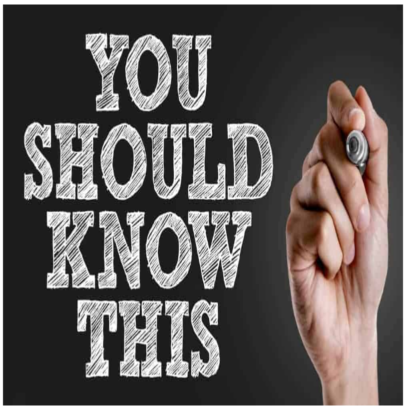

Canadian Investors: 1 Major Mistake to Avoid When Looking for Undervalued Stocks

Description

When looking to buy undervalued Canadian stocks these days, investors have tonnes of tools at their fingertips. There are many ways to find some of the best Canadian stocks to buy with stock screeners and several fundamental or even technical metrics to sort by.

Once you have a shortlist of stocks you're considering purchasing, it can become a lot more work. You need to research each business and look at the company's long-term outlook and its industry to decide whether it's worth an investment.

However, you also want to look at its value. We all want to buy Canadian stocks that are undervalued, and we certainly don't want to overpay and buy stocks that are trading overvalued.

So, one of the tools that investors use is the average analyst target price. However, as useful and helpful as it can be, it can also cause investors to make a major mistake. So, let's look at the best way to use the average analyst target price.

What's the average analyst target price?

When stocks have analysts covering them, they usually put out an estimated target price of where the stock should be in a year. And when you combine all the analyst's target prices, you get an average.

So, investors like to look at this average to get an idea of what the analysts who are covering the company and know it best, what they think of the company. They also look at the average target price and compare it to its current price to see if the Canadian stock is trading undervalued.

Part of what goes into coming up with a price is predicting the company's earnings over the coming year. The other factor is the valuation metric that it's given.

This is important to know, because even if the stock overperforms, for example, it may not necessarily grow to exceed what the target price was.

If analysts were expecting the market to give the stock a price-to-earnings ratio of 25, but market conditions have changed, and now the stock is only valued at 20, it could be trading at less than analysts had expected.

How to use the average analyst target price to find undervalued Canadian stocks

Using the average target price to see if a Canadian stock is trading undervalued is an excellent idea. However, investors should be careful not to fall into an easy mistake.

Because analysts set their target price on where they think the stock will be in a year, it can help you tell if it's undervalued today. For example, if analysts think a Canadian stock will be worth 40% more than it is today, it's likely undervalued.

However, that doesn't mean that the company in question is a high-quality long-term investment. And as I've mentioned, several factors could change, resulting in a completely different valuation for the stock by the time next year comes.

This is why it's crucial that you don't make the mistake of buying a poor investment just because it looks like it's trading undervalued.

A top Canadian stock trading undervalued

There's no question that one of the best growth stocks in Canada is **WELL Health Technologies** (TSX:WELL). And in addition to all the growth potential the Canadian stock offers, you may be surprised to find that it's trading undervalued.

First off, though, WELL is an excellent long-term investment, because it's a major leader disrupting the Canadian healthcare sector. The company has several attractive businesses, including telehealth apps, digital health services, and a rapidly growing electronic medical records business.

And in addition to the incredible portfolio of businesses it already owns, WELL continues to rapidly acquire companies that add a strategic advantage and has proven it can grow rapidly by acquisition.

This is why it's one of the best Canadian stocks to buy for the long term, and why it's so surprising that it's undervalued.

In fact, of the four analysts who cover it, all four have a buy rating. And the average target price is a more than 50% premium to its current market price.

So, if you're looking for a high-quality Canadian stock you can buy for the long run, WELL is one of the most undervalued choices you have today.

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