Three Exceptionally Oversold Stocks that Could Jump 35%

Over the last 22 years, one of my favorite ways to unlock opportunity is to find stocks that are temporarily down on their luck.

We're hunting for excessive pessimism, as Sir John Templeton would.

We're buying the "blood in the streets," as Baron Rothschild would.

And we're being greedy when others are fearful, as Warren Buffett advises.

We believe we've found plenty of opportunity in three picks this week, including Six Flags Entertainment (NYSE:SIX), Zillow Group (NYSE:Z) and JetBlue (NASDAQ:JBLU). We'd like to see at least 25% upside near-term in each.

Six Flags Entertainment Corporation (NYSE:SIX) owns and operates regional theme and water parks under the Six Flags brand name. The company's parks offer various thrill rides, water attractions, themed areas, concerts and shows, restaurants, game venues, and retail outlets. It owns and operates 20 parks, including 17 parks in the United States, 2 parks in Mexico, and 1 park in Montreal, Canada.

On a recent pullback to $63, the stock is just beginning to pivot higher, as it has done historically. Over the last three years, Six Flags Entertainment has had a similar technical set up prior to a bigger move higher. In 2016, shares of SIX pulled back around June-July, bottomed out around August, and ran from $45 to $60. In 2017, the stock pulled back around June-July, bottomed out around August, and ran from $50 to $70.

Now, it's happening again, and the stock may be prepping for another run higher.

Part of the reason for the latest pullback was earnings.

In late July 2018, the company posted second quarter profits of $74.5 million, or 88 cents a share. That missed expectations of 93 cents, though. It posted revenue of $445.4 million, which did beat expectations of $437.7 million.

However, for the first six months of 2018, revenue was $574 million, a 10% increase compared to the prior year period, driven primarily by a 7% increase in attendance, a 3% increase in guest spending per capita and a 12% increase in sponsorship, international licensing and accommodations revenue. The company had net income of $12 million and diluted earnings per share of $0.14 for the first six months of 2018 as compared to a diluted loss per share of $0.06 for the same period in 2017.

Technically, the stock appears to have bottomed out at its lower Bollinger Band (2,20) with oversold extensions on RSI, MACD and W%R.

There are two ways to trade it here.

One is to buy the stock at market prices. The other is to buy to open the SIX September 21, 2018 67.50 calls at market prices.

Zillow Group (NYSE:Z) operates real estate and home-related information marketplaces on mobile and the Web in the United States.

While a riskier buy at the moment after a gap down, we believe that much of the negativity has been priced in. After an earnings and forecast disappointed, 11 analysts cut their price targets on the stock, which was overkill. We believe that even with short-term “noise,” there’s still great opportunity here over the long-term. Plus, we like to buy good stocks when they take hits like this, and wait for the expected recovery.

In fact, others seem to think the sell-off is overdone, as the stock begins to pivot higher. It’s technically oversold at its lower Bollinger Band (2,20), on RSI, MACD and Williams’ %R. With patience, we’d like to see a bearish gap refill at $58 a share.

There are two ways to trade the stock here.

One is to buy the Z stock at market prices. The other is to buy to open the Z September 21, 2-18 50 calls at market prices.

JetBlue Airways Corporation (NASDAQ:JBLU) is a leading carrier in Boston, Fort Lauderdale, Hollywood, Los Angeles (Long Beach), Orlando, and San Juan. JetBlue carries more than 40 million customers a year to 101 cities in the U.S., Caribbean, and Latin America with an average of 1,000 daily flights.

Like many airlines, JBLU has had a rough year, as evidenced in its second quarter earnings and third quarter outlook thanks in part to higher fuel costs. However, despite near-term "noise" and negativity, the long-term outlook for stocks such as JBLU is solid.

Going forward, the company is steadily improving its cost structure. Also, a recent decision to replace its E190 fleet with Airbus A220-300 between 2020 and 2025 will unlock further value. That's because the A220-330s are expected to have 22% lower non-fuel unit costs. Fuel efficiency is also a contributing factor to a healthier outlook.

Technically, the stock is just beginning to pivot higher from oversold points.

We can buy the JBLU stock at market prices. There's not a lot of volume on the calls.