Most Overreactions Lead to Opportunity

Every one has advice to give. But not every one has advice worth listening to.

For years, I was often told to, “Never buy a stock hitting a 52-week low.”

Or, stocks in downtrends tend to stay in downtrends.

Or even that kind of trading is far too risky. It’s not safe.

Or my personal favorite, “nothing is more destructive to investors than thinking a stock trading near a 52-week low is a good buy.”

But to be honest with you – that’s exactly when you want to buy. When every one else is selling and becoming fearful of big named stocks, buy.

As Buffett would tell you, “Be fearful when others are greedy, and greedy when others are fearful.”

Or, as Baron Rothschild would tell you, “Buy the blood in the streets.”

Or, as Sir John Templeton would tell you, “Buy excessive pessimism.”

Look at solar stocks for example. In late March 2017, many were left for dead, ignored because of lower gas prices, concerns about phasing out government subsidies, and far too much debt. But as it turned out, most of the fear was already priced in.

In fact, we could clearly see that with technical analysis.

Look at First Solar (FSLR) for example. In late March 2017-early April 2017, the stock just fell to $26 a share from a high of $37. As it fell, relative strength (RSI), MACD and Williams’ %R became aggressively oversold. It was a clear indication momentum was too bearish.

Any one that bought at that point watched as FSLR doubled from its low.

Canadian Solar (CSIQ) saw the same technical setups, running from $11 to $18.

As we've long discussed, overreactions lead to opportunity.

In fact, just last week, we spoke about the opportunity in oversold shares of Aetna (AET).

> *"Health care stocks took a hit after President Trump signed an executive order to remove subsidies," we noted. "As a result, stocks like Aetna (AET) fell from $155 to $150 in a day. But it was another overreaction. As the air cleared over the news, the stock exploded from $150 to $157. Even now, it offers good opportunity at current prices. Better yet, options traders are flocking to the name, too, picking up the AET November 17, 2017 160 calls, and the January 2017 170 calls."*

A day later, the stock exploded from a low of $159.26 to $185 a share, proving that one of the best ways to make money is from overreaction.

We also made quick mention of why it's always best to trade overreactions in stocks like Amazon.com (AMZN) last week, too.

Since then, the stock has exploded from a low of $960 to $1,120 a share in days.

Again, overreactions can create massive opportunity.

Look at shares of Celgene (CELG), for example.

The stock took a massive hit, falling from $120 to $95 a share after noting that revenue would come in at the bottom of previous guidance. Even news of that caliber doesn't deserve a $25 price drop, though. Plus, we have to consider that the company expects to grow earnings and revenue by double-digits over the next three years. Better yet, it has 12 Phase III trials that are scheduled for release between now and 2018.

With a good amount of fear priced into CELG, the time to buy is now.

Smart traders are buying the stock, as well as the CELG December 15, 2017 105 calls, and the November 17, 2017 102 calls. We'd like to see a near-term bearish gap refill around $120.

We can even look at overreactions in ETFs, such as those found in biotech and pharmaceuticals.

Not long ago, President Trump noted:

> *"Prescription drug prices are out of control. The drug prices have gone through the roof. You look at the same exact drug by the same exact company, made in the exact same box and sold someplace else, sometimes it's a fraction of what we pay in this country. Meaning as usual the world is taking advantage of the United States."*

That ignited fear of potential action against drug pricing, which in turn sent many biotech related ETFs tumbling, including the iShares NASDAQ Biotech ETF (IBB), which appears to have caught strong support at $315.65 a share.

The SPDR S&P Biotech ETF (XBI) also took a hit, finding support at $82.

Even the Pro Shares Ultra NASDAQ Biotech ETF (BIB) took a hit, falling from $64 to $54.

But here's the thing – despite the drops, the fear is now baked in, in our opinion. Related stocks could be about run even higher from this point.

We have to consider that any potential action on drug pricing would take a bit of time.

Instead of worrying about it, we buy the excessive fear, wait for the rebound, and take our money off the table. That's how quick profits are made.

In short, pay close attention to overreactions. That's where the opportunity is.

Trade: Buy CELG stock at market prices, and, or the CELG December 15, 2017 105 calls