Use Weakness in Sports Gambling Stocks as Opportunity

Sports betting stocks have become ridiculously oversold.

In fact, you may want to use weakness as an opportunity in stocks, like DraftKings (DKNG), Penn National Gaming (PENN), and the Roundhill Sports Betting & iGaming ETF (BETZ).

After all, if sports gambling continues to grow, Gambling Compliance, as noted by Kiplinger, says the market could see between $5.9 billion and $8.2 billion by 2024. Morgan Stanley says the U.S. sports betting market could run to $10 billion. Globally, it could hit $10 billion a year by 2025. By 2030, Bank of America says we could see the market up to $24 billion.

With that, we'd buy any signs of weakness in related stocks.

Look at DraftKings for example.

After falling apart around $75, the stock appears to have caught support just under $44. Plus, RSI, MACD, and Williams' %R are all on the floor, oversold. That's not sustainable. In addition, the only reason the stock is down is because of a wider than expected loss of 87 cents, as compared to estimates for 42 cents.

Investors didn't care the company raised its revenue outlook to between $1.05 billion and $1.15 billion. That's up from a range of $900 million to $1.billion. Nor do they care that Jefferies' have a buy rating with a $75 price target.

Or that Goldman Sachs says investors should buy the dip.

Or, look at Sports Betting ETF (BETZ).

The Roundhill Sports Betting & iGaming Index is the first index globally designed to track the performance of the sports betting and iGaming industry. What I like most about ETFs is the diversification offered at less cost.

For example, BETZ currently trades at about $29 a share. If you buy 100 shares, it'll cost you about $2,900 with exposure to Flutter Entertainment, Scientific Games Corp., Penn National Gaming, DraftKings, and Caesars Entertainment to name a few. If you were to buy 100 shares of each of those holdings, it would cost you far more than $2,900.

Better diversification, less cost is always a good thing.

Penn National Gaming is also excessively oversold.

PENN is oversold at its 200-day moving average, with over-extensions on RSI, MACD, and Williams' %R. From here, we'd like to see a test of $100 a share, especially if earnings remain impressive. In its latest quarter, the company posted EPS of 55 cents on revenue of $1.28 billion. The only downfall in its latest earnings was a 6% drop in year over year revenue.

The pullback is temporary. With casinos reopening and with PENN's online sports betting app, we'd use the weakness as a buy opportunity.