Blackberry, Potash, and Gold: 7 Things the Market Taught Us in 2013

Description

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Dear Fellow Fools,

This time of year seems to bring out a reflective posture in all of us. And we Fools are certainly just as human as anyone else, so we're throwing our hat into the reflective ring with this week's Take Stock to discuss some of the critical moments experienced in the Canadian market during 2013.

To compile this list, I asked for help from a few of our writers and analysts at Fool.ca. What follows is a collection of events that occurred in 2013 that are likely to have a lingering impact on our market well past the end of this calendar year. In fact, all seven should remain on your investing brain as you ready yourself for 2014.

In no specific order of importance:

1. Blackberry

Need I say more? Even casual observers of the Canadian financial market are well versed in **Blackberry's** (TSX:BB, NASDAQ:BBRY) 2013 saga. A splashy marketing campaign that included a Super Bowl add, a product launch several months *after* this splashy campaign occurred that failed miserably, an attempted company sale, new management, and steadily dissolving financial health were a mere fraction of the drama that surrounded this former Canadian technology kingpin.

The Blackberry that we all knew and loved is gone, forever. 2013 has made that enormously clear. What will emerge from the smouldering wreck is anyone's guess. Potentially, there are pieces that remain, and if properly assembled, a new company may emerge. The likelihood of this occurring however is anyone's guess. Investing in these kinds of scenarios is typically bad for your financial health and in this Fool's mind, Blackberry is the definition of a stock that belongs on the pile labelled "too hard".

2. Canadian telecoms vs. the Canadian Government

The next time you're considering an investment in one of Canada's Big 3 telecoms — that is, **Rogers** (TSX:RCI.B), **BCE** (TSX:BCE), and **Telus** (TSX:T) — keep in mind that they've attracted the attention of a very significant adversary. And we're not talking **Verizon** here.

As evidenced just this week, the Canadian government has it out for the wireless divisions of Canada's incumbent telecoms. On Wednesday, the federal government announced that it will cap the roaming rates that the Big 3 companies can charge smaller rivals for piggy-backing on their networks. In some cases, these roaming rates amounted to 10x what the incumbents charge their own customers for using their networks, thus putting the new entrants at a massive disadvantage.

The government wants more competition in this space. We might find that the shift that occurred this week is just one of many tricks that could be implemented to ensure this wish is fulfilled.

3. The Lingering Impact of the Lac Megantic rail tragedy

It's well known that Canada is blessed with an abundance of energy-related resources. The problem is, we're infrastructure-poor. We can't move all of the oil and gas that we have to market because we're constrained by a lack of energy-related infrastructure.

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And an event that occurred during 2013 is likely to result in this constraint persisting longer than it otherwise might have. In fellow Fool Robert Baillieul's mind, the Lac Megantic rail tragedy is likely to endure as a sticking point that delays at least one of the possible solutions to this issue.

In Robert's words, Lac Megantic "started a pretty intense debate in this country as to how we're going to actually move all of this production coming out of the oil sands. It also brought the whole crude-by-rail into focus for many Canadians not watching the industry."

Crude-by-rail and the glut of oil in the web of North America's energy infrastructure is something we're likely to hear about well beyond 2013.

4. Corporate action in the grocery space

Two of the biggest corporate moves of the year occurred in the previously boring Canadian grocery space. In June, **Empire** (TSX:EMP.A), parent of Sobeys, announced the $5.8 billion acquisition of **Safeway's** Western Canadian stores. This was followed in July by **Loblaws'** (TSX:L) $12.4 billion buyout of **Shoppers Drug Mart**. Both transactions are not only going to have an impact on how we Canadians shop; they'll also provide an insight into just how hard the Canadian grocery business has become.

By now the story is well-worn. For years, competition in this space has been ramping up as U.S. behemoths like **Wal-Mart** and **Target** have expanded their presence here. This year's transactions by the Canadian grocers provide an indication that they're fighting hard to combat these competitive forces. Only time will tell if these bold moves turn out to be franchise savers, or an exercise in futility.

5. The rose fell off the potash bloom

Potash, and the Canadian companies that mine it, namely **Potash Corp.** (TSX:POT, NYSE:POT) and **Agrium** (TSX:AGU, NYSE:AGU) suffered a setback during 2013 when the supply-controlled system under which the market for their product had operated fell apart. Mid-way through the year Russian potash producer Uralkali elected to remove itself from the rather cozy supply-side system that was in place and go it alone, ramping up production and taking advantage of its low-cost production status.

This has caused the price of potash to decline, and had an adverse impact on the two Canadian producers. Time will tell, but this could very well prove to be one of those instances where in the short-term, the situation appears dire, but when we look back in 5-10 years, it will be nothing more than a blip. The demand side of the potash story remains intact – global diets are changing, we need more fresh produce to support this evolving diet, yet arable land is declining. Therefore, the land that exists needs to become more productive. Potash is the answer. 2013 was a setback for this space, but this is a story that's going to be with us for a long-time.

6. The black sheep

Any discussion of the Canadian market in 2013 is incomplete without mention of the abysmal performance achieved by the third-biggest sector in our market. The Materials sector has declined by 32% (and counting) year to date. Just 2 of the 47 companies in the Metals and Mining sub-sector have managed to achieve a positive return in 2013. *Two*!

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No portion of the Materials sector has been hit harder than gold. With its dip this week back below USD$1,200 per ounce, the price of the commodity is down by about 28% and is set to register its first annual drop in 13 years. The shares of some of the companies that mine the precious metal can only dream of such a return. As we peruse the carnage, year-to-date declines for gold mining stocks of 50% to 60% are not an uncommon site.

We'd love to be able to say enough's enough and things can only get better from here, but when you're dealing with a product that really has no intrinsic value, this is not a claim that we, or anyone else for that matter, should feel comfortable making.

7. An affirmation of our Foolish philosophy

A final takeaway from the Canadian market in 2013 was very nicely summarized by another Fool.ca contributor, Asit Sharma. To paraphrase Asit's comments, 2013 was a year that re-enforced the importance of **business-first investing**, a practice that permeates throughout our *Stock Advisor Canada* service.

Look no further than what's gone on in the aforementioned gold sector. Because of their reliance on an underlying commodity with no intrinsic value, gold mining companies are bad businesses. Some are very well-run, but the underlying businesses are just bad.

2013 is not an exception. This business-first investment philosophy has been re-enforced over and over and over again. And though there are times when pigs fly, so to speak, over the long-term, in our Foolish minds, there's no better strategy to navigate whatever the market may have in store for us.

Ask a Fool

We love hearing from our community of Fools and want to remind you that you can utilize our “Ask a Fool” service to put forward whatever might be on your mind. Simply e-mail us at CanadaEditorial@fool.com.

Fool on and have a fantastic holiday season!

Sincerely,

Iain Butler

Chief Investment Advisor

Motley Fool Canada

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:BB (BlackBerry)
2. TSX:BB (BlackBerry)
3. TSX:BCE (BCE Inc.)
4. TSX:RCI.B (Rogers Communications Inc.)

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