3 Troubled Stocks That Could Double

Description

When it comes to picking stocks with the potential of increasing their share price significantly, there are a few things I look for. I want to see a company that has spent time trading at a much higher price in the past. I also look for companies with temporary or fixable problems. And finally, I look for a balance sheet with little debt and plenty of assets, since those strengths can help a company weather a storm for years while waiting for the business to recover.

The only problem is, as Tom Petty said, the waiting is the hardest part. These names might take years to double. Or they might never recover. These are the risks in swinging for the fences. Here are three stocks that, over time, have the potential for market-beating appreciation.

Reitmans

Reitmans (TSX:RET.A) is a women's clothing retailer that is dealing with same-store sales declines, the entrance of **Target** (NYSE:TGT) into the Canadian market, and customers buying online instead of in stores. Because of these headwinds, the stock is down more than 66% over the past four years.

The company is doing all the right things, it just hasn't seen results come around just yet. Its website is completely revamped, connected to a state-of-the-art inventory system. The firm has partnered with Babies R Us to sell maternity clothes inside almost 200 U.S. stores. Non-performing stores are being shuttered and investments have been made to give facelifts to many existing stores.

Senior management has run the company for decades, and they own 57% of the voting shares (and 7% of the non-voting shares). The company is sitting on a bunch of cash, and it has authorized a share buyback of up to 5% of the outstanding float. It also pays a 3% dividend, easily covered by cash in the bank. The company will need a few surprise earnings hits to move the stock, but expectations are so low this isn't out of the question.

Penn West Petroleum

Penn West (TSX:PWT)(NYSE:PWE) is an intermediate oil and gas producer that has been plagued with investor disappointment, a dividend cut, and weakness in natural gas prices. These factors have caused the stock to fall more than 65% from its $27 high in 2011.

Although the company is saddled with a large debt load and the fourth quarter loss disappointed investors yet again, the stock does have potential. Assets have been sold off, natural gas prices have improved year over year, and company profitability is starting to improve. Certain natural gas fields in Alberta and B.C. have been written off to the tune of more than $1 billion, and the recent dividend cut means more cash can be dedicated to paying back debt.

Barrick Gold

Barrick Gold (TSX:ABX)(NYSE:ABX) made a lot of mistakes during the gold boom, including overpaying for assets, taking on too much debt, and letting costs run out of control. These mistakes essentially cost chairman and founder Peter Munk his job.

The company is cutting costs, including a temporary shutdown of the Pascua-Lama mine in South America, until expenses can get under control. Munk's choices of top managers are slowly starting to be replaced with industry veterans, and they've already taken extensive write-downs on underperforming mines. The stock has responded positively to these moves, rallying 40% since December. There's still plenty of room for the miner's share price to increase, since it's still more than 50% below the 2011 high. Additionally, the price of gold could rally if tensions in the Ukraine escalate, which can only help Barrick.

Foolish bottom line

If any of these three stocks can find a way to turn results around, investors could be looking at huge gains. It might take years of waiting, but one of the keys to outperforming the market is buying when things look bleak. Billionaire investor Warren Buffett does it. You should too.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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