3 More Stocks to Avoid Forever

Description

An earlier article highlighted three stocks that you should never buy. The three companies had either weak management, a weak moat, or an astronomically high price.

Below are three companies that you should also cross off your watch list, all for one simple reason: they are uncompetitive. While they all trade at fairly cheap valuations, there is a good reason for that. And they could all become much cheaper in a hurry.

1. Labrador Iron Ore Royalty Corporation

Labrador Iron Ore Royalty Corporation (TSX: LIF) makes all its money from the Iron Ore Company of Canada, which produces iron ore in Labrador. Of all commodities, perhaps the scariest one to invest in is iron ore. There are two reasons for this: an unstable end market, and tough competition.

Iron ore is used exclusively to make steel, 50% of which is consumed by China. Steel is mainly used in the construction of buildings, which has been the main fuel in China's growth, especially in the last five years. But there are numerous signs that China is in the midst of a property bubble, and if the construction stops, then world demand for steel will plummet. And that would bring down iron ore prices too.

The iron ore market is dominated by **BHP Billiton**, **Rio Tinto**, and **Vale**. All three are able to produce iron ore much more cheaply than LIORC. So if iron ore prices plummet, the mining giants will easily outlast LIORC. Worst of all, these companies are planning major production expansions.

2. Indigo

Like LIORC, **Indigo** (TSX: IDG) competes against a much larger rival that operates at a much lower cost: **Amazon**. But unlike the mining giants, Amazon makes a constant effort to keep prices as low as possible, in an effort to wound its competitors.

And that is what has done to so many, including Indigo. Through the first three quarters of 2014, the company has lost nearly $17 million. Will the story get better? It could, but one only needs to look back at what happened to Borders to see what could be in Indigo's future.

3. Iamgold

If gold prices go back to $1,900 per ounce, which is where they were in 2011, perhaps no company will benefit more than **Iamgold** (TSX: IMG)(NYSE: IAG). This is because the company is one of Canada's highest cost gold producers. The company doesn't admit this easily, but the numbers tell the story.

In 2013, the company reported "cash costs" of $801/oz for the year. But all-in sustaining costs at its gold mines were north of $1,200, and that does not include "development/expansion" costs of $485 per ounce of production. Worst of all, Iamgold's reserves actually decreased during the year, making one wonder whether those expansion costs really should be classified as such.

In fact the company's free cash flow in 2013 was negative $371 million, in a year when gold prices averaged $1,400. So unless gold prices recover dramatically, Iamgold will continue to bleed cash.

Foolish bottom line

Any of these investments could conceivably turn out really well. If China reaccelerates, Indigo receives a buyout offer, or gold prices spike, these three companies will be fine. But that is not a gamble worth taking. You're better off staying on the sidelines.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:IAG (IAMGOLD Corporation)
2. TSX:IDG (Indigo Books & Music)
3. TSX:IMG (IAMGOLD Corporation)
4. TSX:LIF (Labrador Iron Ore Royalty Corporation)

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