



Are These Heavily Shorted Gold Stocks Set to Soar?

Description

There are a lot of benefits of being a contrarian investor.

Often, stocks that have fallen a great deal are the ones set up to outperform going forward. These companies are usually decent value, trading at low price to earnings and price to book ratios. And, in a bizarre twist of logic, stocks that most investors hate will often be the ones that are set up for long-term success, since a lot of long-term changes are often painful in the short term.

Of course, investors have to be careful when looking for contrarian investments. It's not as easy as checking 52-week low lists and blindly buying those beaten up stocks. Just because a stock is trading at low values doesn't mean it's primed for a comeback. The company also needs to be making positive steps in improving its operations and improving its financial situation.

One sector of the market which has sold off significantly is the gold sector, and for good reason. The price of gold performed extremely poorly in 2013. Cost overruns are common, especially at mines acquired during the good times of 2011 and 2012. Investors have responded to this weakness by heavily shorting some of the leaders in the sector, which has led to further weakness.

Lately though, things are looking up for many different gold stocks. Companies have shuttered high cost mines, taking their medicine for ill-timed acquisitions. The price of gold has stabilized. Both costs and production are being cut, which should lead to increased gold prices in time as supply runs out.

Investors looking to bet against short sellers can do so by taking a look at these three heavily shorted gold stocks.

Kinross Gold

Investors have turned bearish on **Kinross Gold** ([TSX: K](#)) over the last few weeks, increasing their short position on the company almost 50%, from 27 million shares to more than 40 million.

This likely has something to do with investors nervousness about the Russian government, where the company has about a quarter of its assets. As the Ukraine situation gets more dicey, investors get

more nervous about how geopolitics could affect the company's future in the region. Will the Russian government do the unthinkable and seize Kinross's assets?

That's unlikely, to say the least. Since Russian officials have significant assets overseas, it's not in the country's best interest to blindly seize Canadian assets. Considering Russia exports a great deal of its natural resources, seizing assets in the country will likely anger its customers, and lead to reduced markets for its resources. For an economy as resource rich as Russia's, that's certain death.

Yamana Gold

Yamana Gold's ([TSX: YRI](#))([NYSE: AUJ](#)) shares are also being bet against by a large number of investors, as more than 22 million shares are now being sold short.

Investors with a long-term time horizon see a company that's trading for less than its net asset value, and has a comfortable cash position. It just completed a feasibility study on the Cerro Maro project, which is projected to be one of the entire industry's lowest cost mines. The company also indicated that its cost-cutting programs have been successful, which should lead to increased cash flow in 2014.

New Gold

Shares in **New Gold** ([TSX: NGD](#)) are also heavily bet against, as investors have sold more than 39 million shares short. This represents almost 35 days worth of trading.

The company just beat its first quarter earnings forecast, and has been upgraded recently by Jennings Capital, which sees a potential upside of more than 35% higher than current levels. Analysts are bullish about the company's low cost base, increasing production, and the location of the company's mines, which are all in geopolitically stable regions.

The company is also excited about new projects in its pipeline, which collectively are expected to produce almost a million ounces of gold per year. The Rainy River mine in Ontario is particularly interesting, as it's projected to produce more than 300,000 ounces of gold annually on its own. New Gold is hoping this production comes on line by the end of 2016, meaning investors must be patient.

Investors who short stocks are generally looking for short term profits. By looking at heavily shorted stocks, long-term investors can take the opportunity to buy a solid long-term company with fixable short-term problems. Investors must be careful, but some of the most shorted stocks are also some of the best opportunities.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:K (Kinross Gold Corporation)
3. TSX:NGD (New Gold Inc.)
4. TSX:YRI (Yamana Gold)

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