2 Miners to Buy and 1 to Avoid

Description

There are few sectors more dangerous to invest in than mining. Mining companies routinely have to face issues such as falling commodity prices, skyrocketing costs, balance sheet risk, and geopolitical nightmares. When the operating environment isn't ideal, shareholders can feel a lot of pain.

That being said, some miners are better positioned than others to deal with these risks. Also, there's always a flip side — if a miner is able to exceed expectations, then shareholders can profit very handsomely. On that note, below are two miners that look to be very well positioned, as well as one you should stay away from.

Two to buy

1. Cameco

There are few commodities with a more depressed price than uranium. After trading above U.S.$70 per pound in early 2011, the price has fallen below $30, where it remains today. The main cause has been the decreased use of nuclear power after the Fukushima disaster, as well as stubbornly strong supply.

However, with prices so low, it's only a matter of time before demand recovers. In the meantime, countries like Japan are having to rely on higher-cost alternatives like liquefied natural gas. Supply must eventually come down; too many producers are losing money as it stands. If and when those two things occur, uranium's price should recover, and **Cameco's** (TSX: CCO)(NYSE: CCJ) shareholders stand to benefit.

2. First Quantum

Of all the large miners on the TSX, copper miner **First Quantum Minerals** (TSX: FM) has by far the best track record. The company has managed to do two things not seen very often in mining: Buy assets cheaply, and keep costs under control. Its stock price tells the story — over the past 15 years, its shares have returned 39% per year.

Importantly, First Quantum is continuing to grow production after the recent acquisitions of Inmet and Lumina. As long as the company grows efficiently, as it has done in the past, then its shares should continue to perform.

One to avoid

Barrick Gold

The past 15 years have been a different story for shareholders of **Barrick Gold** (TSX: ABX)(NYSE: ABX), with the shares returning -0.39% per year — and this was a time period when gold prices skyrocketed.

Barrick has of course made numerous missteps. It hedged gold prices at the wrong time, made poor acquisitions, lost control of costs, botched the Pascua Lama project, and got stuck with too much debt as gold prices fell. If you're looking to bet on gold, then you should buy an ETF; this is not the kind of company you should want in your portfolio.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:CCJ (Cameco Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:CCO (Cameco Corporation)
5. TSX:FM (First Quantum Minerals Ltd.)

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