Yamana Gold Inc: A Stock to Avoid in 2015 and Beyond

Description

There are few feelings as nice as outsmarting everyone else. That's the feeling you can get by buying a beaten-down stock. After all, you were smart enough to avoid the stock when it was plummeting. And when everyone else is rushing for the exits, you can take pride in "going against the crowd."

Better yet, famous investors like Warren Buffett are always telling us to "be greedy when others are fearful", and vice versa. It's no wonder so many investors are drawn to beaten-up stocks.

But sometimes, it's best to just leave these names alone. **Yamana Gold Inc.** (TSX: YRI)(NYSE: AUY) is a perfect example. The stock may look cheap after declining by over 50% in 2014. But it's still worth avoiding. Below we take a closer look why.

What's gone wrong?

The problems for Yamana have been two-fold. First of all, the fall in gold prices hasn't helped anyone. Gold now sits at roughly US$1,200 per ounce, down from nearly $1,900 per ounce in 2011.

Secondly, Yamana has had some serious operational issues, especially in Brazil. More specifically, the Chapada, Jacobina, and Fazenda Brasiliero mines have run into numerous problems. Yamana is trying to sell them, but has not received any satisfactory offers. And in the most recent quarter, Yamana decommissioned the C1 Santa Luz mine, another Brazilian operation with numerous problems. Meanwhile, the company's dividend has been slashed twice in the past year.

A risky outlook for gold

But will things get better? Well, that depends on the gold price. And as it stands, gold could easily fall further.

Most big banks think that interest rates will rise in the United States by June 2015. Such a move would strengthen the U.S. dollar, and be bad news for gold. Higher interest rates would also make the greenback a more attractive investment, another negative for the shiny metal.

If gold falls further, that won't just cause Yamana's cash flow to decline. It will also make those Brazilian mines *really* hard to get rid of.

A bonus reason for not buying Yamana

Since the beginning of 2011, Yamana's shares have declined by 64%. But the company's CEO, Peter Marrone, hasn't shared in the pain. Not only has he remained chief executive throughout this time, but he's been paid very handsomely.

In fact, over the past three years, Mr. Marrone has earned more than $32 million. Amazingly, this is higher than what Chuck Jeannes has earned over at **Goldcorp Inc.**, even though Goldcorp is about five times larger (and has performed a lot better than Yamana).

So is this really the type of leadership you want at a company you own? Not me. And when combined with the company's poor performance, as well as the gold price risk, Yamana is clearly a stock not worth touching.

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