Cameco Corporation Soared 1,100% the Last Time This Happened

Description

Over the next few years, you could make triple-digit gains in the world's most beaten-down commodity: uranium.

No, you're not going to get rich quick. But as I'll show you today, spot prices cannot stay as low as they are right now.

Higher rates are coming. And before the run is over, we could see prices double or more.

If you don't buy uranium now, you'll hate yourself later

People can send prices to extremes. Sometimes, they can push prices to levels that don't make any sense.

Case in point: uranium. Following Japan's Fukushima disaster, attitudes towards nuclear energy have soured. Many countries have dialed back or even scrapped their atomic power programs altogether.

As a result, uranium prices collapsed. Today, the spot rate is hovering just above US$35/lb. That's off more than 70% from the highs hit back in 2007.

There's only one problem. It's not easy to haul this stuff out of the Earth. According to most industry estimates, the average cost to produce uranium is about US$75/lb.

You don't need a PhD to crunch these numbers. At current prices, miners are losing money on almost every pound of uranium they pull out of the ground. That's a great way to go out of business.

And this is exactly why the current situation won't last. Small miners are going bust. Larger producers are scaling back operations. Eventually, the laws of economics dictate that prices must rise to meet the cost of production. That's more than 100% over today's levels.

It's a classic resource market cycle. When commodity prices collapse, producers cut output and supplies tighten, then the price soars. When commodity prices rise, miners ramp up production and flood the market with supply, then prices collapse.

This pattern is as reliable as the sunrise. And it isn't the first time we've seen this cycle. The exact same thing played out in 2003.

Back then, uranium prices were well below the cost of production. But as output bottomed, rates began to rally. That bull market saw prices soar to US$130/lb by mid-2007.

When these supply shocks happen, miners such as **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) and **Denison Mines Corp** (TSX:DML)(NYSEMKT:DNN) start making money hand over fist. And as you can see in the chart below, this can result in jaw-dropping profits for investors.

uranium

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Source: Yahoo! Finance

Between 2003 and 2008, Cameco and Denison shares rallied over 1,100% and 4,400% respectively. Profits soared because of the leverage inherit in their business. We could be in the early days of a similar move right now.

How to strike it rich in the next resource boom

But one word of warning: Wall Street is starting to catch on. According to SEC filings, billionaire investor George Soros has purchased 2.3 million shares of Cameco. There has also been a huge uptick of hedge fund trading in smaller names like Denison Mines.

What could have these money mavens so excited? I'd say it could mean only one thing: they see a big rally ahead.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSEMKT:DNN (Denison Mines Corp.)
3. TSX:CCO (Cameco Corporation)
4. TSX:DML (Denison Mines Corp.)

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