



Read This Before You Buy Barrick Gold Corp.

Description

It's the dirty little secret your stock broker doesn't want you to know.

You won't hear this from many analysts on Bay Street. You certainly won't hear this from executives in Vancouver.

But I have been saying it for a long time—mining is a terrible business and most investors are being taken for a ride.

Read this before you buy another gold stock

There's a big business in selling you gold shares.

Miners like to dig holes in the ground. They always need money for their next project. Bay Street is more than happy to comply. Resource deals are a big source of fees for banks. So, regardless of what the fundamentals say, there's always someone trying to raise money for a new mining play.

Skip the sales pitch. You are better off avoiding this industry entirely because gold mines are a terrible investment. Here's why.

First, you have to find a deposit. Geologists don't work for free. Be prepared to pay a lot of money to scour the globe for new ore bodies.

This process isn't much better than guesswork. More than likely your efforts will result in zilch. And even if you find something, fewer than one in 3,000 discoveries will ever be profitable to exploit. If you do find something valuable, then you must sort through tons of rock and muck to process a few ounces of metal. Once the ore is out of the ground, you have to grade it, ship it, and refine it. And everyone wants their cut along the way. Unions, landowners, governments. Be prepared to write a lot of cheques.

Needless to say, these projects are expensive. Even when everything goes well, they almost never make much money.

Last year, I interviewed billionaire Rick Rule to get a sense of the numbers. If you were to consolidate every junior mining company into a single firm, it would lose \$2 billion in a good year. How much are you willing to pay for a business that only loses money?

Large miners are able to scrape a small profit during the boom years, but these gains are wiped out when business sours. In 2013, falling metal prices forced the Canadian mining industry to write off a collective US\$17 billion in reserves. That's a lot of shareholder capital flushed down the toilet.

But there's another reason why mining stocks are bad investments: Most executives sacrifice profits for growth. For managers, presiding over a growing business empire is exciting. And grow they did—poorly, and with little discipline.

Companies are rarely focused on running profitable mines. Rather, they want to tap as much investment capital as possible. Executives care more about jacking up reserve numbers than whether or not a project can turn a profit.

This mentality has devastated shareholders' returns. To show you what I'm talking about, let's look at a well-known miner like **Barrick Gold Corp** ([TSX:ABX](#))(NYSE:ABX).

Barrick executives love to brag about their expansion. In 1992, the company grossed over \$540 million in revenue and employed a few thousand people. Today, Barrick has over 20,000 employees and earns over \$12.5 billion in sales each year.

But investors haven't profited from this growth. Today, at \$16 and change, Barrick's stock sits at the same level it did in the early 90s. Everything management did to expand the business has been a waste of time from the perspective of shareholders.

More incredibly, the company's accumulated deficit stands at \$7.8 billion. Even if you include the dividends paid out, Barrick has never earned a single dollar in profit for investors.

It's remarkable to think that a company can be in business for so long and never make a dime for shareholders!

The one thing mining companies won't tell you

I picked on Barrick today, but it's not the only big miner involved in this scheme. Gold mining is a terrible business, regardless of what Bay Street might say to the contrary.

What these stocks do in the short run is anybody's guess. But over the long haul, resource investors will likely be disappointed with their returns.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)

2. TSX:ABX (Barrick Mining)

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