3 Reasons Why Kevin O'Leary Would Never Buy a Mining Stock

Description

In an interview with Catherine Murray on *The Business News Network*, Kevin O'Leary (currently best-known for his role on ABC's *Shark Tank*) said that he "would never buy a mining stock." Of course, he is known for making provocative statements, but this one is worth paying particular attention to. We take a look at his top three reasons for avoiding mining stocks below.

1. Problems with pay

Mr. O'Leary made his comments when asked about **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), a company in hot water because of its executives' compensation. In fact, numerous institutions have said they will oppose the miner's pay practices at its annual meeting.

And for good reason; Barrick's top three executives got paid a total of US$25 million last year, which included nearly US$13 million in compensation for Executive Chairman John Thornton. Meanwhile, the company's shareholders didn't do so well—Barrick's stock declined by nearly a third in 2014.

Worst of all, Barrick isn't the only offender. A recent article in *The Globe and Mail* pointed out that executives are overpaid at other gold miners too. At the end of the day, why would you want to be a part of all this?

2. A poor track record

If executives were earning their pay, this would be a different story. Unfortunately for shareholders, the track record of miners is abysmal, something Mr. O'Leary made very clear.

Its not just gold miners that are guilty. Consider **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK), one of Canada's largest base metal producers. Under CEO Don Lindsay, the company made numerous bad decisions, most notably a $14 billion acquisition in 2008 (which nearly drove the company to bankruptcy).

More recently, the news for Teck hasn't been much better. From the beginning of 2012 to the beginning of 2015, Teck's profitability took a nose dive and its stock price fell by more than half. The company's financial situation worsened, leading to a dividend cut of two-thirds just last week.

Yet Mr. Lindsay remains in charge and made more than $30 million over this three-year stretch. Once again, why would you want any involvement in this?

3. Easier to buy the commodity itself

Mr. O'Leary suggested another way to bet on commodities: buy the commodity itself! Or to put it another way (as he did during his interview), "Why put idiot management between you and the commodity price?"

This is a lot of easier than it used to be. If you want to bet on gold, you don't need a safe to hold your gold bars. If you want to bet on copper, you don't need to buy any wiring. And you certainly don't need to buy any barrels of oil.

Exchange traded funds are certainly your best bet. Take the **iShares Gold Bullion ETF** (TSX:CGL) as an example. Over the past five years, it's gained 5%, roughly consistent with the gold price. Meanwhile, in this time Barrick's shares have declined by more than 60%.

Of course, there's another option: just avoid commodities altogether. Instead, just buy stocks of companies you can count on for many years.

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