



## Should You Scoop Up Teck Resources Ltd. Shares for Just \$5?

### Description

There's no greater feeling for any investor than buying a beaten-up stock, one that everyone else has given up on, and then watching it roar back to life. When done successfully, this can make any investor feel like the smartest person in the room. Warren Buffett's famous quote comes to mind: "Be fearful others are greedy and greedy when others are fearful."

Meanwhile, there's no worse feeling than selling a stock at a loss. After all, doing so amounts to admitting a mistake. It's so much easier to say things like "Mr. Market is overreacting" or "now it's an even better deal."

So what's the point of all this? Well, consider a company that is struggling badly and whose stock price is in decline. This company will surely draw the attention of bargain hunters, some of whom will inevitably find the stock too cheap to pass up. Meanwhile, many existing shareholders will choose not to sell, preferring instead to wait and see what happens.

Consequently, the company's shares may very well be overpriced. In other words, the shares may have declined, but not by as much as they should have. Then as the company continues to struggle, you'll inevitably hear words like "value trap" and "falling knife."

This pattern has played out numerous times, and it has wounded some of the world's most renowned investors. For example, Bill Miller was one of Wall Street's most legendary investors, until he thought financials were a bargain in 2008. And Eric Sprott has been burned by mining and gold stocks that also seemed like bargains.

### The latest example

Fast forward to today, and bargain hunters have surely their sights set on **Teck Resources Ltd.** (TSX:TCK.B)(NYSE:TCK). The diversified miner's stock now trades just above \$5 per share, and has been hitting new 52-week lows. To put this in perspective, the stock was trading above \$60 back in 2011.

It's no secret why Teck has fallen so far. The prices of its key products—copper and metallurgical

coal—have absolutely plummeted. This has put a massive dent in Teck’s profitability, which in turn has put pressure on the company’s balance sheet. All major rating agencies now rate Teck’s debt as junk.

A turnaround is certainly possible. Commodity prices seem unsustainably low (especially for met coal), and supply cuts may soon follow. That would lead to a rebound in prices as well as Teck’s stock.

But you should be very careful before owning Teck. Unless there is a recovery in commodity markets, this stock could very easily go to zero. And thanks to bargain hunters, along with stubborn shareholders, this stock is still too expensive.

This is one falling knife you don’t want to try to catch.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

1. NYSE:TECK (Teck Resources Limited)
2. TSX:TECK.B (Teck Resources Limited)

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bensinclair

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