



## Top Turnaround Stocks for 2016

### Description

I define turnaround stocks as companies that are so beaten down that they've become dirt cheap, but they have the financial strength to survive headwinds. The reason to buy these stocks would be for substantial capital gains when the stocks finally recover.

#### A financially stable gold miner

My first pick is **Goldcorp Inc.** (TSX:G)(NYSE:GG). It has a relatively strong financial profile compared with other gold miners. Goldcorp has an S&P credit rating of BBB+, two levels higher than the investment grade BBB-. Goldcorp also has low debt levels with a debt-to-cap ratio of 12%.

Further, the gold miner is dirt cheap. Its book value is \$27.50 per share, while shares are trading around \$16.30 per share. This implies Goldcorp is trading at a 40% discount to book value at a price-to-book (P/B) of 0.6.

Based on its P/B, it is the cheapest it has been in a decade. For comparison, in the last recession it traded at a P/B between 1.5 and 1.9.

#### A low-debt diamond miner

My second pick is **Dominion Diamond Corp.** (TSX:DDC)(NYSE:DDC). It has low debt levels with debt-to-cap ratio of only 2%. With almost no debt, the diamond miner cannot go bankrupt.

Further, the diamond miner is dirt cheap. Its book value is \$20.70 per share, while shares are trading around \$11.10 per share. This implies Dominion Diamond is trading at a 46% discount to book value at a P/B of 0.54.

For comparison, in the last recession, it traded between a P/B of 0.4 and 1.1. So, I think it's a good buy now.

#### How to buy prudently?

The thing is it could take a while for these stocks to recover, so there's no need to rush to go all in at once. Instead, you can employ some of these tips to carefully build your positions over time:

- Dollar-cost average in and wait for the ultimate turnaround when precious metals prices pick up again.
- Wait for the company to post positive earnings before buying. This way, you'll likely lose the first leg up, but at least you won't be stuck in a losing business for an extended period of time.
- Look at the technical charts of each stock and buy when you think it has bottomed. You might not pick the exact bottom, but if you're building your position steadily, you'll get an average low cost.

## Conclusion

These picks are for patient investors who have an investment horizon of at least three to five years. These turnarounds are meant to be a small part, at most 5% in total, of a diversified portfolio, for *potential* high capital gains.

## CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

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## Date

2025/08/04

## Date Created

2015/12/03

## Author

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