



## What Do Speculative Investments Look Like?

### Description

Speculative investments can be lucrative, but they are not for everyone. Investors need to have a big appetite for risk, be able to stomach large ups and downs, and have lots of patience if they're to invest in speculative investments.

To manage risk, investors should look for a big margin of safety and make sure that speculative investments only make up at most 5-10% of their portfolios.



Here are two examples of speculative investments.

**Tahoe Resources Inc.'s** (TSX:THO)(NYSE:TAHO) licence for its Escobal mine, the third-largest silver mine in the world, has been suspended. The company had to stop its operations there for now.

The court ruling to suspend the mine came about because activists claimed that the mining activities at Escobal have caused seismic activity more than 20 kilometers away in Casillas, Guatemala.

The shares responded by falling ~36% from the ~\$10.80 per share level, which already included a bounce, as the shares fell as much as 41% at one point.

The fall is warranted because Escobal accounted for ~44% of the company's revenues in 2016. Tahoe Resources is working to get the go ahead to operate the Escobal mine again and believes the business is still intact.

So, one of the risks of the company has played out, and that's why the shares are cheap. As soon as the company is given the green light to run Escobal again, its shares should rise to the normal levels for a gain of at least 45%.

**Callidus Capital Corp.** (TSX:CBL) offers financing solutions for companies that cannot obtain adequate financing from conventional lending institutions. Instead of focusing on cash flows and projections, as conventional lending institutions do, the company focuses on assets and the enterprise values of its potential clients.

The Catalyst Capital Group Inc., Canada's second-largest private equity firm, owns about 67% of Callidus Capital and provides management services to the company.

Callidus Capital has been under a privatization process, which was supposed to come to fruition at the end of June with a target take out price of \$18-22 per share. However, it hasn't played out yet.

Now, Callidus Capital is saying that the process is going to take longer. Though it has maintained the \$18-22 per share target range, its shares refuse to move higher than \$15 per share.

Perhaps that's because the company is now also considering a private debt fund as one of its options. So, if Callidus Capital is able to put together a debt fund as a way to raise capital and invest at a higher rate, it should help the business grow.

Currently, Callidus Capital offers a big yield of 8.2%.

### **Investor takeaway**

Because of the uncertainties surrounding Tahoe Resources and Callidus Capital, they are speculative investments today. If things clear up, Tahoe Resources and Callidus Capital should appreciate at least 45% and 23%, respectively, from current levels.

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