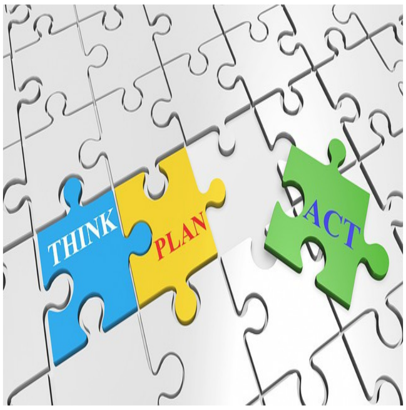

The Main Reason Investors Need to Short Teck Resources Ltd. (TSX:TECK.B)

Description

The past several months have been very good for companies in the resource sector and, more specifically, those in the oil segment. As the price per barrel of oil continues to increase higher (as it should), it is easy to understand why many shares are also trading at higher prices.

As the future profits of oil companies are dependent on the price of oil, the correlation between the going price per barrel of oil and corporate profits are directly in line with one another. To boot, there are still a number of projects that can be restarted at a reasonable cost for those willing to take the risk.

For investors who are prepared to look past oil, the picture is not as clear. At a current price of almost $36 per share, **Teck Resources Ltd.** (TSX:TECK.B)(NYSE:TECK) may be the best short of the year.

In addition to trading at a more than a 10% premium to tangible book value, the company now faces higher borrowing costs (as interest rates have increased) and, of course, a higher opportunity cost.

Opportunity cost is a very important concept to understand in order to enter this short position.

In many cases, buyers of resources are required to pay an upfront cost and tie in their money for a period of time prior to the product being delivered. When this happens and future prices are higher than the current price, it is called contango. In the resource space, it takes time for large buyers to plan in advance what their future needs will be and to commit to a contract. As cash is required up front, the cost to enter a contract increases.

With interest rates increasing from their traditional lows, the biggest headwinds are currently being felt by the buyers that are entering these contracts. Instead of tying up money for 1%, the government has increased the risk-free rate of return, making the opportunity cost much higher. They are giving up a higher risk-free rate of return. This will lead to less demand from investors and a share price that will hopefully correct to an appropriate level.

Along with shares of Teck Resources, investors may want to think very hard before entering shares of **Goldcorp Inc.** (TSX:G)(NYSE:GG), as the miner may experience the very same fate. In spite of a rising share price since the beginning of the year, investors should not be tricked.

The main factor that has driven this stock higher is the abandonment of Bitcoin, as the alternative currency or ultimate "safety." In spite of many readers who do not believe this, it must be noted that there is a correlation between the two assets that is impossible to ignore. When we consider that shares of Goldcorp have increased since the beginning of the year in tandem with the decline of almost all cryptocurrencies, the equation seems to make more sense.

Bottom line: short the resource sector.

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