Is This World-Class Producer With Explosive Long-term Upside Right for Your TFSA?

Description

Deep value investing can be rewarding for those who can spot macroeconomic trends correctly. Much of the time, deep value plays are well over 50% off from their highs, and although value-conscious investors may have attempted to catch the stock on the way down, odds are that these types of investors are just speculating with the hopes of making a quick buck from a bounceback.

Simply put, catching a falling knife and bottom fishing in battered names are usually not great strategies for anyone but the most experienced of investors. Even a correct long-term thesis has the potential to go wrong if you're unable to time near to medium-term macroeconomic catalysts.

You can't buy a stock solely because of its dirt-cheap valuation metrics. Such shares are usually cheap for a very good reason, and nothing is stopping them from becoming even cheaper after you decide to initiate a position. Even if you're fortunate enough to catch a stock at its bottom, you could be left hanging onto a stock for many years with little to nothing to show for it once you finally decide to throw in the towel. Just because a stock has bottomed doesn't mean that it's ripe for a rebound.

If you're able to form a sound long-term thesis and you have the patience to wait many years for this thesis to come to fruition, only then would it make sense to initiate a deep value position in a severely beaten-up stock.

Consider **Cameco Corp.** (TSX:CCO)(NYSE:CCJ), a uranium producer that has plunged along with the price of the commodity following the Fukushima nuclear disaster that severely damaged global sentiment on nuclear power. It's been over a decade, and the stock has continued to freefall over 73% from its all-time high!

This prolonged duration of underperformance hasn't been through the fault of management, however. It's the exogenous factors that have negatively impacted the stock. Cameco actually owns some of the best high-grade uranium deposits in the world! The Saskatchewan-based McArthur River mine is a real gold mine (not in a literal sense) when it comes to uranium deposits. Moreover, management has excelled at cutting costs to make the most out of a horrible situation.

For Cameco stock, it was clear that there was no bottom. The company was at the mercy of uranium prices, which have been on a steady decline with weak demand for uranium following the Fukushima disaster that served as a huge wake-up call.

It's been a tough road for uranium and Cameco, but as investors, we shouldn't fret about the past. We need to focus on the future because that's where potential profits lie.

Moving ahead, Japan is expected to reboot its reactor fleet, and over the next few years, China may be gravitating toward nuclear power as they eliminate coal from the equation. At this time, over 50 new reactors are under construction and could be slated to come online gradually over the course of the next decade. That could mean uranium prices may be close to a bottom, and as more reactors come online, Cameco stock may finally begin to surge.

Cameco currently remains an untimely investment, however, as the catalysts remain longer-term in nature. If you're looking for a compelling deep value play, then Cameco may be the stock you're looking for, but keep in mind that your horizon should be a decade at the very least. Also keep in mind that another nuclear disaster could cause shares of Cameco to implode once again with a decade (or more) extended period of fallout as investors shun the stock.

For most investors, I'd recommend steering clear of Cameco as there are far better options out there if you're looking to bring your TFSA to the next level. If you're a real bull on the future of nuclear power, you can buy Cameco now, but you should probably keep it in a non-registered account because the upside may be miles away.

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