These 2 Stocks Are in Big Trouble

Description

Every investor wants big gains, but avoiding big losses is just as important.

Let's say one of your stocks takes a 50% dive. Even if it rises by 10% per year afterwards, it'll take more than *four years* to fully recover. Losing a half-decade of returns will permanently hinder your portfolio, reducing the ultimate value of your investments by thousands or even millions of dollars.

If you want to avoid big losses, avoid the two stocks below. But just because you don't own these stocks doesn't mean you're in the clear. The risks outlined below almost certainly impact some section of your portfolio.

These stock-picking lessons should help you make better bets for years to come.

Beware coal

Westshore Terminals Investment Corp (TSX:WTE) seemingly has a great business model. It has a long-term contract to operate in one of the busiest ports in Canada, the Port of Vancouver.

It's the fourth-busiest port in the Americas, ranking in the top 30 globally. Westshore has managed an exporting terminal at the port for nearly 50 years.

Every port in the world has a maximum number of terminals. It's simply a space issue. That means whoever controls a terminal usually gets a near-monopoly on whatever resource is being imported or exported.

So in theory, Westshore has a monopoly-like business exporting a lucrative commodity. Here's the problem: that commodity is coal.

While Western Canada and the U.S. have ample supplies of coal, demand is withering due to environmental regulations. The Energy Information Administration believes that the U.S.—the main driver of North American coal demand—is on a multi-year decline in consumption.

While it's a smaller market, both Canada is also focused on reducing coal demand.

This should be a boon for Westshore given that it's focused on exporting the resource. Coal producers should be racing to send it abroad.

The issue is that the entire world is reducing coal consumption. Strong growth had been expected in India and China, but the truth is more complicated.

China, the world's biggest coal consumer, aims to dramatically reduce its coal consumption over the next decade. While Chinese consumption has risen in recent years, much of it has been met with increases in local production, cutting out exporters like Westshore.

There's money to be made with Westshore stock, but the macro environment should continue to work against investors for decades to come.

A tough pivot

Teck Resources Ltd. (TSX:TECK.B)(NYSE:TECK) is one of Westhore's biggest customers. And while it's done a great job diversifying its business in recent years, it's still very much a coal company.

More than 50% of earnings still come from coal sales. As with Westshore, that's bad news for long-term investors.

With ample low-cost production in North America, pricing is about to get difficult. The only two major countries in the world still consuming more coal each year are India and China. These two countries are also ramping local production, meaning that they're less reliant on imports.

Year after year, Teck Resources is producing a commodity that isn't needed or wanted in its local markets. Abroad, they need imports less and less. This is simply a poor position to be in.

Over the last 15 years, Teck Resources investors have experienced a total return of around 0%. Don't be surprised to see the next 15 years generate the same return—or worse.

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