



Make Sure You Don't Own These Terrible Stocks

Description

Some stocks are downright terrible. The worst stocks repeatedly promise a light at the end of the tunnel, only to destroy shareholder capital for years or even decades at a time. However, there's one foolproof trick to avoid these companies: don't invest in companies or industries in secular decline.

What does secular decline mean? It's best explained through an example like the newspaper industry. At certain points throughout the last 15 years, newspaper stocks looked cheap. They even tempted the likes of Warren Buffett.

Eventually, however, everyone knew that physical newspapers would disappear. Unless they could totally reinvent themselves, newspaper stocks would likely disappear as well.

Ultimately, newspaper stocks *have* struggled. Few, if any, have beaten the market over the past decade. That's what I'm talking about when I say that a company or industry is in secular decline—it may survive for many years to come, but demand for its product or service will slowly evaporate.

Which other stocks are in secular decline? Look no further than the oil sands industry.

It's simple math

If you're producing commodities, the game is simple: produce as cheaply as possible. While it's sometimes possible to sell your output for different prices (see the difference between Brent and West Texas benchmarks), commodities generally sell for similar prices.

That's basically the definition of a commodity. If you don't have pricing power, the only thing you can do to protect and grow profits is to lower your production costs.

For some reason oil sands investors have a difficult time accepting that companies like **Canadian Natural Resources Ltd.** ([TSX:CNQ](#))([NYSE:CNQ](#)), **MEG Energy Corp** ([TSX:MEG](#)), and **Husky Energy Inc.** (TSX:HSE) *don't* have low-cost positions.

In reality, they're some of the *highest* cost producers in the industry. That's because they all have sizable oil sands projects, all of which produce output that needs extra refining. Extra refining means extra costs, putting oil sands output at a permanent disadvantage to conventional output.

Why would a company develop high-cost commodities? That's a good question. Many savvy investors predicted these assets would produce *0% returns* for shareholders over the long run.

Jeremy Grantham, co-founder at \$120 billion asset manager GMO, once said, "Anyone investing in tar sands is very likely to end up with stranded assets in the next decade or two."

Solar is getting cheaper by the minute, whereas petroleum is getting more expensive. It is only a matter of time before their expenses cross."

Notably, he said that back in 2013! Since that call, the oil sands stocks listed above have each lost between 30% and 80% of their value. Looking ahead, the future remains bleak.

Invest here instead

It's going to be tough for oil sands stocks to make money over the long term. The proof is already available. If you invested in Canadian Natural back in 2005, you would have generated zero profits.

Husky Energy shares are cheaper today than they were in 1995! MEG Energy investors have lost 80% of their money over the last decade. With oil majors targeting production costs of just \$15 per barrel, oil sands projects will likely never catch up.

Where should you invest instead? The answer, of course, is to find companies facing secular *growth*, not secular *decline*. **Shopify Inc** ([TSX:SHOP](#))([NYSE:SHOP](#)) is a prime example.

The internet is reshaping how the retail industry operates. You no longer need a multi-million dollar ad budget or space on **Walmart Inc** shelves to sell your products or services. All you need is a website, made easy through Shopify's integrated store creator.

Everything is done for you, including inventory management, shipping notifications, and payment processing.

The independent retail store market is expected to grow for *decades*. Shopify stock is expensive, but its size several years down the road will likely be much bigger.

Of course, the trick is now to find the *next* Shopify, but one thing is certain: the next Shopify will experience secular growth.

CATEGORY

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TICKERS GLOBAL

1. NYSE:CNQ (Canadian Natural Resources)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:CNQ (Canadian Natural Resources Limited)
4. TSX:SHOP (Shopify Inc.)

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