Warning: This Stock Peaked in 2002 and Still Has More Downside!

Description

Over a long enough period of time, stocks tend to perform better than any other class of asset — bonds, real estate, gold, you name it. Sure, they have their downswings. But given time, stocks perform better than anything else.

Between 1968 and 2009, the S&P 500 averaged a return of 8.2% before factoring in dividends — better than real estate, and way better than bonds.

This kind of historical performance is the reason why investors stick with stocks, despite all the volatility. Sure, investing in stocks can be a jittery experience. But if you can get an 8-10% average return over the course of your lifetime, why on earth *wouldn't* you go for it?

For many investors, that's the thinking. However, every now and then we see a stock that reminds us it doesn't always work out that way — a stock that keeps tanking year in and year out, with no end in sight.

Such stocks are rare, but their price charts provide a sobering lesson that all investors would be wise to think about. One of the worst such stocks is a TSX vehicle manufacturer whose best days were over a decade ago.

Bombardier

Bombardier (TSX:BBD.B) has been one of the worst-performing TSX stocks over the past 17 years. Having peaked at $26 in 2002, it trades at just $1.58 today. This stunning 93% decline has been a depressing spectacle to witness. What's even more depressing is how the company got there.

A checkered history

Bombardier's descent dates back to the early 2000s, when the company sold its recreational products business to Bain Capital for $1.2 billion. The deal was part of a restructuring plan aimed to divest the company of non-core operations. Unfortunately, Bombardier recreational products ended up being a profitable company under Bain, calling into question the wisdom of selling it.

In the meantime, Bombardier's restructuring left it free to dedicate more resources to major projects, like the CSeries Jet. However, that project ended up being a colossal failure, loading up Bombardier with even more debt than it had before. By the time it was all said and done, Bombardier had to transfer ownership of 50.1% of the project to Airbus.

Why the worst may not be over

You might think that, after spiralling from $26 to $1.58, Bombardier must be near a bottom. However, that needn't necessarily be the case.

Since new management took over, Bombardier has essentially been busy with cost cutting. The most notable of these cost-cutting initiatives have included slashing 5,000 jobs last year, another 500 jobs this year, and selling a major business unit to Mitsubishi this year.

These types of cost-cutting initiatives can increase profit margins in the short term; however, they also cut off potential revenue sources. As we saw in the Bombardier recreational products deal, the company would have been better off holding on to the business in the long run.

Overall, I don't believe that Bombardier's cost-cutting initiatives will be enough to turn things around. In its most recent quarter, the company lost $36 million (in GAAP terms), while adjusted EBITDA slid 7%.

In more encouraging news, the company's Global 7500 Jet is apparently seeing strong interest from customers. However, structural problems mean there could be a lot more trouble ahead for Bombardier.

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