Forget the SPDR Gold Trust — Consider These 3 Stocks Instead

Description

If you've followed the stock market in recent years, you surely know about the **SPDR Gold Trust ETF** (NYSEARCA: GLD). The popular exchange-traded fund tracks the spot price of gold because it's backed primarily by physical gold bullion that is held in a vault in London (the world hub of gold bullion trading). GLD is billed as a low-risk, cost-efficient, secure way to invest in gold — without having to actually own physical gold. It's not without its problems, though, which is why gold mining stocks may offer the better investment.

What's wrong with the trust?

The SPDR Gold Trust sports a 10-year gain of 194%, but it breaks many of the rules of being a great long-term *prospective* investment. It provides no dividends and offers no recurring cash flows. It also can't be acquired, so that eliminates any jump in price due to buyout potential. The Trust is also subject to higher taxes — unlike mining stocks — because it falls within the "gold tax rate" or "collectibles tax rate," with rates up to 28%.

The Trust is susceptible to long booms and busts and it could take decades to just break even if you happen to enter on a peak and watch your investment slowly drop over several years before changing course. The lack of dividends to ease these fluctuations makes this scenario worse. Gold itself has offered over 7% returns annually in the past 50 years — but it's been quite lumpy. Gold has multiplied five-fold over the past decade, but it lost money in the previous 20-year period.

Unlike the typical publicly traded company, the Trust has no management behind to make it better. There are no new products to introduce and no news to introduce to shareholders. SPDR Gold's only value, then, is the possibility that someone else in the future will pay more for it than you did. Instead of the Trust, have a look into one of the following mining companies.

Goldcorp

There are more than 80 publicly traded companies that mine or deal with gold in some way. In terms of market cap, three of the top four are based in Canada. At the top is **Goldcorp** (TSX: G), with a market cap that exceeds $21 billion. Its trailing returns aren't remarkably impressive: over the past one-, five-, and 10 years it's returned -24%, -35%, and 77%, respectively. However, the 2.3% dividend, which has been paid monthly since 2003 and increased in 2012, brings the 10-year total return closer to 100%. While the returns are nowhere near what GLD has done in that same time period, Goldcorp brings more to the table.

Goldcorp currently has mines in Canada, Mexico, the Dominican Republic, Guatemala, the United States, and Argentina and expects over the next five years for gold production to rise another 70%. In 2012, Goldcorp produced nearly 2.4 million ounces of gold and currently expects to mine 2.55-2.8 million ounces for 2013.

One drawback to Goldcorp when compared to other mining companies is that the cost per ounce of gold mined has increased significantly — to $710/ounce, up from $648/ounce in 2012. Since gold prices are the same everywhere, the one with the lower costs per ounce (efficiency) profit the most. Therefore, size does not necessarily matter when it comes to mining gold. As a result, net earnings for the first quarter of 2013 dropped to $309 million, compared to $479 for the first quarter of 2012. This is despite revenues jumping to $1 billion, up from $404 million in 2012.

Barrick Gold

In a close second in terms of size is **Barrick Gold** (TSX: ABX), with a market cap just over $19 billion. Its one-, five-, and 10-year returns have lagged, at -48%, -52%, and -19%, respectively. However, some of this is made up by a 4.15% quarterly dividend, as well as its growing business potential. Barrick has outperformed many others in the industry — first-quarter 2013 net earnings came in at $847 million. It was able to do this mainly because its cost per gold ounce is just $561. Even with its 2013 yearly guidance of $610/ounce-$660/ounce, its costs are significantly lower than the competition.

Barrick expects to mine 7.0-7.4 million ounces of gold for 2013, and it's said that it has more than 140 million ounces in reserves. Much of its success has come from the ability to acquire stakes in large mining operations, like its 50% shared stake in the Super Pit in Australia, which produced 327,000 ounces of gold in 2012.

Yamana Gold

The third largest Canadian miner is **Yamana Gold** (TSX: YRI), with a market cap of $8 billion. Its one- and five-year returns have been lackluster, at -21% and -29%, respectively. However, its 10-year share price gain is over 300%, not including the 2.4% quarterly dividend that began in 2006.

Seven low-cost mines and three in development, with mining life that ranges from 5 to 18 years each, make up the company's mining locations, which include Brazil, Chile, Argentina, Mexico, and Columbia. Yamana's goals are to expand operations 60% over the next two years.

Also, silver plays a large part of its mining operations, and it uses a gold equivalent ounces (GEO) system in public filings. However, on gold-only mining sites, the cost per gold ounce mined ranges from $584/ounce to $1,276/ounce. The Jacobina, Brazil location went from $666/ounce to $1,276/ounce but the company expects it to return to the $650/ounce-$750/ounce range with cost-reduction measures. Net earnings for the first quarter of 2013 were just $102.1 million.

Fool's gold

The problem with gold is that it's impossible to predict where it's headed over the next decade. The lack of consistent correlation with anything measurable over any significant amount of time leads gold/GLD investors into being invested in something that is neither useful in the big picture nor has reliable demand. But a gold mining stock has the benefit of paying you to wait with consistent dividend payouts.

While gold miners currently appear more attractive than owning the actual commodity, their performance is still predicated on the performance of gold. We have created a special **FREE** report that profiles 3 dominant businesses who set their own rules. Simply **click here** and we'll send you "
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The original version of this post was created by Fool contributor Michael Carter.

Fool contributor Michael Carter does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

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1. NYSE:B (Barrick Mining)
2. NYSEMKT:GLD (SPDR Gold Trust)
3. TSX:ABX (Barrick Mining)
4. TSX:YRI (Yamana Gold)

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