Gold Gets a Much Needed Bounce

Description

It's been a rough year for gold investors. The precious metal lost a record 23% last quarter and has taken gold mining stocks down with it. The numbers were not pretty on the quarter as the S&P/TSX Global Gold Index is down about 50% from the start of the year. The good news, if you want to call it that, is the price of gold seems to have found a bottom. Even better, the shiny metal recaptured some of its shine as it rose more than 5% over the past few trading sessions.

Slashing costs

That's of course good news for gold bulls, if there are any left, as well as investors in gold mining stocks. At the time of this writing, gold was trading at about $1,280 an ounce which is below a very critical level investors in gold mining stocks need to watch. Many gold miners, including **GoldCorp** (TSX: G,NYSE:GG), have built long-term models based on the price of gold staying above $1,350 an ounce. If gold stays below that price it could cause longer-term pain for many miners.

Weaker than expected gold prices have many producers pursuing cost cutting measures in order to maintain profitability. **Barrick Gold** (TSX: ABX,NYSE:ABX) is exploring a variety of ways to do this including reducing its total capex. Overall, the company is looking at cost reductions in excess of $500 million (USD). Further, it's not planning any major future capital projects beyond Pascua-Lama.

Like Barrick, many producers have shifted from a model of production growth at all costs to one focused on producing returns. It's the same story at **IAMGOLD** (TSX: IMG), which for example, lists its top three priorities as cash preservations, cost reduction and disciplined capital allocation. The company has said it's not going to jeopardize its strong balance sheet. That's forcing the company to slash about $100 million (USD) from its cost structure. The company also won't be proceeding on a number of its projects if the economics don't meet its criteria.

Production reduction

With so many miners doing a complete 180 on costs, it could lead to a longer term impact on gold supply. By not investing to grow production as rapidly, it could help tighten up future supply. That's especially true of higher cost supply. Really, what's happening here is that gold miners are following the same road map as North American natural gas producers, which were forced to cut production when the price fell. That helped to boost margins as the companies embraced capital discipline.

Final Foolish thoughts

Gold miners still have a long road ahead of them. Unlike natural gas, gold's price is driven more by the whims of the market than its fundamentals. This past week, the market liked the perceptions that the U.S. Federal Reserve won't start tapering its bond buying program quite as quickly as once feared. Unfortunately, the bottom line here is that investors should continue to expect volatility in both the price of gold as well as mining stocks because at some point The Fed will taper its program.

That's why investors really need to make sure their portfolio is balanced by holding a few rock solid dividend paying stocks. If you need a couple of dividend plays to balance out your more volatile gold stocks, we have found 13 of them for you to consider. We've complied those names in a Special FREE Motley Fool Report to help take the guesswork out of dividend investing. To get the report, "13 High-Yielding Stocks to Buy Today," just click here to receive a copy at no charge!

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1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:IMG (IAMGOLD Corporation)

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