Is Now the Time to Invest in Gold?

Description

With PDAC (the Prospectors and Developers Association of Canada conference) in full swing, **Dundee Corporation** President and Chief Executive Ned Goodman has made a bold prediction concerning the future of gold. Contrary to the views of many analysts, he has taken a bullish stance, saying that we are in the midst of the buying opportunity of a generation for gold.

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Already for the year-to-date, the metal Warren Buffett once famously described as having no utility has rallied almost 9% to U.S. $1,334 an ounce. The increase has renewed interest in the gold mining industry with a number of analysts upgrading their ratings for a range of gold miners.

Goodman believes growing demand from China will fuel further significant appreciation of the gold price. China is the world's second largest economy, and it's seeking to boost its bullion reserves, remove the U.S. dollar as the international reserve currency and usher in a new era of the gold standard.

What is the consensus outlook for gold?
This exceptionally bullish and contrarian view is at odds with those taken by a number of global investment banks and their analysts. **Goldman Sachs** has predicted a 15% decline in the gold price for 2014, which would see it finish the year at around U.S. $1,050 per ounce. **UBS** recently amended its 2013 forecast upwards, but still estimates a 2014 average price almost 3% lower than the current spot price of U.S. $1,300 per ounce.

Clearly much of the sentiment in the market is negative, based on the view that as U.S. economic growth improves and the Fed further unwinds quantitative easing, the price of gold will fall. This appears to make considerable sense as gold is seen as a defensive asset that moves contrary to global stock markets.

But Chinese demand for gold is clearly on the up and up. Net imports of gold from Hong Kong – the best measure of China's demand for gold as the majority of gold imports pass through Hong Kong — more than doubled in 2013 as demand grew on the back of softer prices.

Clearly this demand will continue as long as prices remain soft and should set a price floor for gold somewhere around the level of where China's insatiable appetite for gold starts to drop off. Some pundits have speculated this could be around the U.S. $1,300-1,400 per ounce mark. If this is the case, it is extremely good news for investors in gold miners.

The outlook for gold miners continues to improve
It is becoming increasingly clear that when the price of gold tanked in 2013, many investors threw the baby out with the bath water as they exited gold mining stocks in droves. Many miners, including **Barrick Gold** (TSX:ABX)(NYSE:ABX), **Goldcorp** (TSX:G)(NYE:GG), **Yamana Gold** (TSX:YRI)(AUY), and **New Gold** (TSX:NGD),(NYSE:NGD) remained operationally profitable.

All of those miners had all in sustaining costs per ounce produced – the best measure of a gold miner's profitability – for 2013 that were lower than the average price of gold for the year of U.S. $1,411 per ounce. Barrick reported all in sustaining costs of U.S. $915 per ounce, Goldcorp's were U.S. $1,031, Yamana's U.S. $947 and New Gold's U.S. $883.

A number of those miners, including Barrick, Goldcorp and New Gold took the opportunity to make a series of write-downs against their assets, clearing the decks for stronger performance in 2014 and beyond.

Finally, the majority of miners recalculated their end of 2013 reserves using a price lower than the current gold price. Barrick used U.S. $1,100 per ounce, Yamana U.S. $950, and Goldcorp and New Gold both used U.S. $1,300 per ounce. This ensures development projects and operational mines remain profitable, with those that aren't removed from their reserves.

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But more importantly for investors who are bullish on gold, any sustained rally in the price of gold above these levels through 2014 will see an increase in reserves, seeing the underlying value of those companies' key assets, their gold reserves, appreciate considerably.

What does all this mean for investors?
Clearly with gold rallying and recently hitting its highest price for four months the profitability of gold miners will continue to grow — particularly those that have low all-in-sustaining-costs like Barrick and Yamana. Furthermore, it creates the opportunity for significant end of year reserves growth if the rally continues.

By the end of 2013 renowned investors George Soros, notorious for breaking the Bank of England, had taken an almost 1% position in Barrick worth more than U.S. $2 million. This move highlights the growing interest in the sector from professional investors.

Furthermore, with low-cost producers Barrick, Yamana and New Gold having cleared the decks for 2014, it is only a matter of time before their share prices rebound further.

Foolish bottom line
Whether Ned Goodman is right or wrong on his prediction that now is a once-in-a-generation buying opportunity, what is clear is that gold miners are set for a sharp rebound. Particularly good bets are those with low all in sustaining costs, making Barrick, Yamana and New Gold hot picks for contrarian investors in 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:NGD (New Gold Inc.)
5. TSX:YRI (Yamana Gold)

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