



Insiders Are Buying Barrick Gold: Should You?

Description

Successful investing requires a lot of work — analyzing financial reports, evaluating a company's growth prospects, and assessing whether it has the management team to execute. And, of course, determining if a company has a unique advantage that gives it pricing power and the ability to keep competitors at bay.

A shortcut used by some traders is to rely on insider activity to guide their decisions. Insiders, which includes senior officers and directors, must disclose their purchases and sales of company stock to the appropriate exchange.

Unlike the average retail investor, insiders better understand their company's operations, its outlook, and the likelihood of whether an investment will deliver market-beating returns. However, like every investor, insiders have their own reasons for buying and selling a company's stock, and it may not be a clear signal on future price movements.

For the bottom-up investor, insider activity is just one more piece of information to consider before deciding whether a company is worthy of investment.

According to INK Research, **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX) has the second-highest dollar volume of insider buying on the TSX over the past 60 days — nearly \$4.2 million of stock.

Apart from insider activity, here are three things to consider before making an investment in Barrick Gold.

All-in sustaining costs

All-in sustaining costs, or AISC, is a relatively new metric used by gold producers to help stakeholders, including investors, better evaluate the economics of gold mining.

Traditionally, cash-cost reporting focused only on the mining and processing costs incurred. AISC reflects costs in the complete life cycle of a mine instead, from exploration to closure.

Keeping production costs in check is essential in the current environment of low and volatile gold prices. By lowering capital expenditures, and reducing general and administrative costs during the first quarter, Barrick Gold reduced all-in sustaining costs to \$833 per ounce, a \$100 reduction, or 11%, from the first quarter of 2013. If management can maintain this progress, Barrick will beat its own guidance of \$920 to \$980 per ounce for 2014. Continued progress on reducing AISC is an important step towards improving long-term profitability and supporting a higher stock price.

Debt reduction

Barrick Gold has a mountain of debt, but significant progress has been made to reduce it over the past year. After reaching a peak of \$13.4 billion during the second quarter of 2013, net debt has been reduced to \$10.5 billion, a decline of 22%.

Much of Barrick's debt is long-term and does not mature until 2023 or later. But if interest rates rise significantly, the \$1 billion in debt that matures within the next four years might be renewed at a much greater cost.

Barrick will produce over 400 million pounds of copper in 2014 — a sizable stand-alone business that would attract a few buyers should the company wish to divest it. Such a move would earn Barrick Gold several billion dollars, further reduce debt, and help it become a much stronger, leaner, and focused company.

The price of gold

The truth is, no one knows with any degree of certainty where the price of gold is headed, particularly over the short term. Its price is influenced by many factors, including demand from central banks, investors who buy gold as a hedge against inflation or economic disruption, and of course, the large market for gold jewelry.

But gold has played an important role in the world's economy for a very long time. Central banks will continue to keep a portion of their liquid reserves as gold. And according to the World Gold Council, demand for jewelry accounts for nearly half of the global demand for gold. With continued economic growth in China and India, two of the three largest markets for gold jewelry, and the ease of gold investing with exchange-traded funds, it's easy to make the case for higher gold prices, at least over the long term.

What does this all mean?

Over the past 12 months, Barrick Gold has lost over 50% of its value. And insiders are buying. Though a great deal of short-term uncertainty remains, long-term investors should be rewarded by a stronger market for gold, and by the steps Barrick Gold is taking to reduce debt and improve all-in sustaining costs.

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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