



## 5 Things to Know Before Investing in Precious Metals

### Description

Precious metals mining is a fickle industry. It changes constantly because of price volatility, market demand, and the costs incurred for capital-intensive projects. Then, there's always *something else* that causes mining companies to change plans. Here are five things to consider before investing in precious metals.

#### 1. Price volatility is inherent to the industry

Precious metals prices follow no set pattern or trend. They can swing up or down in a flash. For example, *Canadian Mining Journal* reported this month that, "A rare combination of ongoing strikes in South Africa's platinum group metal mines combined with political tensions between Russia and Ukraine have translated into three-year highs for palladium prices in early June, resulting in one of the few bull markets for a mining commodity this year."

#### 2. Optimistic plans can fall by the wayside

Weak gold prices and other concerns can play havoc with best laid plans. In Q4 2013, **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX) announced the temporary suspension of its large Pascua-Lama gold mine in South America. It's anticipated that Barrick will sustain costs of approximately \$300 million in 2014 for shutdown, environmental, and social requirements. It will restart Pascua-Lama depending on improved economics and reduced uncertainty pertaining to legal and regulatory requirements.

#### 3. Opposition to the mining industry is a constant

A recent survey by Benenson Strategy Group noted that opposition to the Pebble mine in Alaska, near Sharp Mountain, remains strong. The survey shows that 62% of Alaskans are against development of the Pebble mine. Moreover, 70% believe the mine presents a threat to the state's fishing industry. In addition, 51% believe it could create significant risk.

#### 4. Top-notch management and industry expertise are essential for company viability

The precious metals industry today is too complex for neophytes to run operations. Gone are the days

of getting a license and a permit and sticking a shovel in the ground. This month, **Orvana Minerals** ([TSX: ORV](#)) named Neil Ringdahl as its new Chief Operating Officer. He has 20 years of international experience in mine operations, development, and management.

In May, **Goldcorp** (TSX: G)(NYSE: GG) announced the election of Mr. Clement A. Pelletier to its board. Ian Telfer, Goldcorp's Chairman of the Board, said, "Clem Pelletier is a resource industry veteran, having served as both a mine operator and the founder of an important engineering and environmental firm over the course of an impressive career."

## 5. Patience and a fat wallet are virtues in this industry

**Yamana Gold** ([TSX: YRI](#))([NYSE: AUJ](#)) recently announced the results of the updated feasibility study for the Cerro Moro project it acquired in 2012 in Santa Cruz, Argentina. With a positive construction decision later in 2014, production would commence in the first half of 2016.

Initial capital expenditure estimates for the project are \$126 million. This would be spent starting in 2015 and chiefly in 2016. The estimation is that an additional \$27 million of capital expenditures will be needed in year three of production for the completion of phase two.

Precious metals companies do offer an opportunity for shareholder returns. However, before you invest, consider the fickle nature of the industry. You must be willing to ride out the less-than-illustrious happenings that impact the industry.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:ORV (Orvana Minerals Corp.)
5. TSX:YRI (Yamana Gold)

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