



3 Ways to Cash in on Higher Gold Prices

Description

There are growing signs the rally in gold will be sustained, with gold prices continuing to defy the bearish predictions of a number of analysts and investment banks, including **Goldman Sachs**.

Furthermore, with gold prices remaining above \$1,300 per ounce, growing demand and falling supply and a number of billionaire investors including George Soros making large bets on the precious metal and beaten down gold miners, now may just be the time to make a bet on gold.

But the key question for investors is how to make that bet, so let's take a closer look at three ways to invest in gold.

1. Physical ownership

There is nothing like the sensation of being able to gaze upon your investment, and gold coins and bars are a popular means of investing in gold. But a key problem facing investors in physical gold is its lack of liquidity, which creates a wide spread between bid and ask prices, with the majority of investors forced to buy at retail prices and sell at wholesale prices. As such, a big price appreciation is required for investors in physical gold to break even or make a small profit.

2. Exchange-traded funds

A far more practical means of investing directly in gold is to invest in a gold exchange-traded fund, the two largest being the **SPDR Gold Trust** (NYSE: GLD) and the **iShares Gold Trust** (TSX: IGT).

These have significant advantages over investing in physical gold, specifically liquidity and the ability to avoid the wide spread between bid and ask prices.

The SPDR Gold Trust and iShares Gold Trust have spiked a healthy 9% for the year-to-date, mirroring the rally in gold prices. But while this may be the easiest option for investors, translating into the closest correlation between physical gold prices, there is another option which provides the opportunity for greater returns.

3. Gold mining stocks

Investing in gold miners is essentially a leveraged play on the price of gold. The risks can be

tremendous but so can the rewards. Investors have the choice of investing in larger stable companies with globally diversified operations like **Barrick Gold** ([TSX :ABX](#))(NYSE: ABX), **Goldcorp** and **Newmont Mining**, or they can go for higher-risk/higher-reward bets on junior miners.

One example of the rewards available to investors from investing in junior gold miners is **Detour Gold** (TSX: DGC), which has popped a staggering 218% for the year to date. This is on the back of the successful commencement of operations at its Detour Lake mine, which continues to see production and ore quality grow.

But the key to investing in gold miners is identifying those with low costs, high margins, and strong balance sheets. The most appealing of the large-cap miners is Barrick Gold, which with an enterprise-value of a mere six times EBITDA, is attractively priced. It is also continues to generate a solid margin per ounce of gold produced with low all-in sustaining costs for the first-quarter 2014 of \$833 per ounce.

Two small-cap miners offering promise are **B2Gold** ([TSX: BTO](#))(NYSE: BTG) and **New Gold** ([TSX: NGD](#))(NYSE: NGD). Despite having relatively high all-in sustaining costs of \$1,039 per ounce during the first quarter, B2Gold remains attractively priced with an enterprise value of 8 times EBITDA.

New Gold appears expensive with an EV of 11 times EBITDA, although it continues to generate a healthy margin per ounce of gold produced with first-quarter 2014 all-in sustaining costs of \$674 per ounce, which are among the lowest in the industry.

There are a range of opportunities available for investors when choosing to invest in gold and in my opinion, exchange-traded funds are the easiest option and offer the lowest risk. Gold miners, in particular small-cap miners, offer the greatest reward but come with the highest risk, especially given the capital-intensive nature of the industry.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSEMKT:GLD (SPDR Gold Trust)
3. TSX:ABX (Barrick Mining)
4. TSX:BTO (B2Gold Corp.)
5. TSX:NGD (New Gold Inc.)

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