If You Don’t Buy Gold Now, You’ll Hate Yourself Later

Description

Over the next couple of years, you could make triple-digit gains in one of the most beaten-down commodities on Earth: gold.

No, it won’t happen overnight. But as I’m about to show you, a bull market in precious metals is almost inevitable. And before the run is over, we could see prices double… or more.

Let me explain…

Gold has been left for dead. Thanks to a lacklustre economic recovery, inflation has been relatively tame. Investors aren’t interested in holding precious metals when they can earn higher returns in stocks or bonds.

Here’s the problem: prices are so low that producers are losing money on almost every ounce of gold they pull out of the ground. In the industry today, it costs about US$1,650 to mine one ounce of gold. However, at today’s spot prices miners can only earn US$1,300. You don’t have to be a business expert to figure out that this isn’t a good business model.

That’s exactly why the current situation won’t last. Junior miners are going bust, large producers are cutting costs, and nobody is exploring for new mines.

At this exact same moment, central bankers are flooding the world with phony paper money. Japan is expanding its bond-purchasing program to stimulate its economy. The European Central Bank recently cut interest rates for the first time since 2012. And in the past few months a number of countries — including Australia, India, Denmark, South Korea, and others — have slashed interest rates.

People who believe in the tooth fairy (and other children’s stories) might think that you can print trillions of dollars out of thin air without any consequences. But eventually all of this money will flood into the marketplace, raising prices across the board. Just as we saw at the beginning of this century, the only refuge for investors will be hard assets like gold.

We could be at the beginning of a big rally. Supplies are tightening and gold spot rates are already up

10% year-to-date. Prices should rise to meet the cost of production, that's about 25% over today's level.

In preparation for the rally, hedge funds have been buying gold mining stocks as a leverage bet on the underlying commodity.

As I wrote last week, billionaire investor George Soros has accumulated a $120 million stake in Canada's largest precious metals mining company **Barrick Gold** (TSX: ABX)(NYSE: ABX). This company is now one of Mr. Soros's largest holdings.

And over the past few months a number of other hedge funds have been building positions in mining names like **Yamana Gold** (TSX: YRI)(NYSE: AUY), **Goldcorp** (TSX: G)(NYSE: GG), and **Agnico Eagle Mines** (TSX: AEM)(NYSE: AEM). These large-cap names have enough size and scale to survive the industry's current doldrums. But given that their expenses are mostly fixed, these companies could see their profits double or triple if gold prices rally even slightly.

What could have these Wall Street financiers so excited? I'd say it could be only one thing: they see an epic rally ahead.

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:AEM (Agnico Eagle Mines Limited)
4. TSX:YRI (Yamana Gold)

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