Are These the Only 2 Precious Metal Stocks an Investor Should Own?

Description

2012 and 2013 were tough years for almost every precious metal company.

The poster child for this has to be **Barrick Gold** (TSX: ABX)(NYSE: ABX). The company entered 2012 with a share price of nearly $50. The price of gold was near $1,800 per oz., and things were looking extremely bullish. The company's 2011 earnings were nearly $4.50 per share, and projections for 2012 were even higher, thanks to the strong price of the yellow metal.

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And then, it all unraveled.

2012 wasn't so bad. The price of gold declined to the point where Barrick posted a small loss for the year. As 2013 continued on and it was obvious that the price of the underlying commodity wasn't about to touch previous highs, the company finally decided to take its medicine. It laid off staff and shook up top management, essentially ousting founder Peter Munk. It also pulled the plug on several new mines it planned to open over the next few years, taking huge write-offs in the process.

Once all the one-time charges were accounted for, Barrick lost more than $9.50 per share. The company's book value shrank from $21.8 billion to just $13.5 billion, and shares hit a low of just over $17. These are staggering losses, no matter the industry.

Is there a better way?

Taking on operational risk is something that investors have to deal with when investing in precious metal companies. This can work both ways. Sometimes operations are better than expected, other times it's obvious a company spent too much acquiring metal rights and will have to write some of it down.

But what if there was a way for investors to get exposure to the precious metal without taking on operational risk?

The easy way to do this is to buy an ETF of all the gold mining stocks, like the **iShares Global Gold Index Fund** (TSX: XGD). By spreading around their precious metal investment, investors take away some of the operational risk. The only problem? This fund is dominated by Barrick and **Goldcorp**, which account for more than 30% of its assets.

Instead, investors should look at both **Franco Nevada** (TSX: FNV)(NYSE: FNV) and **Silver Wheaton** (TSX: SLW)(NYSE: SLW).

Both these stocks are royalty companies, which means they simply sit back and relax while another miner does all the work. They each get paid based on the amount of gold or silver pulled out of the ground, no matter what happens. This not only frees up management to go out and acquire new property, but it also ensures they can operate with significantly less capital than a traditional miner.

Both companies have pristine balance sheets. Franco Nevada doesn't carry a dime in debt and has almost $700 million in cash. Silver Wheaton has a little extra debt because it fronts payments to its partner companies to get them going, but the fact remains that both of these companies carry very little operational risk. Investors needn't worry about either announcing huge losses at any point soon.

Of course, both these companies are more expensive than traditional miners. But, in my opinion, they're worth it. Investors who buy the miners are setting themselves up for a huge potential windfall — assuming the price of the commodity cooperates. If it doesn't, both of these royalty companies are vastly better choices.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:FNV (Franco-Nevada)
3. TSX:ABX (Barrick Mining)
4. TSX:FNV (Franco-Nevada)
5. TSX:WPM (Wheaton Precious Metals Corp.)
6. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

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