Will Gold Prices Fall Even Further?

Description

Marc Faber, publisher of *The Gloom, Boom & Doom Report*, told Bloomberg on July 21 that investors should be buying gold and gold miners to take advantage of the rally he expects in the price of the precious metal.

Faber recommends that investors protect the value of their assets by taking positions in gold and gold stocks to hedge against the negative impacts of worsening geopolitical situations and unrestricted money printing. The idea is that global investors will soon flock to gold again to protect against currency devaluation, inflation, and the unknown fallout of major global conflicts.

In addition, Faber says continuous money printing by the U.S. Federal Reserve and other central banks around the world is propping up stock valuations and the economic fundamentals don't justify the record levels being enjoyed by U.S. markets.

The global economic situation, he says, is weak. The U.S. is experiencing slow growth, Europe is essentially stagnant and Faber says there is evidence that economic activity in emerging markets is slowing down.

Market capitalization of U.S. stocks as a percentage of the economy is at the second-highest level it has ever been. Faber said the last time the metric reached these levels, in 2000, things ended badly for stock market investors.

According to Faber, a stock market correction of up to 30% is in the wings. He's been calling for this correction since 2012.

Hedge fund operators George Soros and John Paulson have placed big bets on gold and gold miners, including **Barrick Gold** (TSX: ABX)(NYSE: ABX) and **Goldcorp** (TSX: G) (NYSE: GG).

On the other side of the fence, **Goldman Sachs** (NYSE: GS) is calling for gold prices to retreat from the current level of $1,300 an ounce to $1,050 by the end of 2014.

If Goldman is right, a 20% drop in gold prices from current levels will definitely hurt mining shares.

What should investors do?

Investors can be forgiven for not wanting to wade into precious metal stocks. Gold miners have been gutted in recent years after gold hit a peak of $1,921.50 an ounce on Sept. 6, 2011.

Barrick has licked its wounds, cleaned up its balance sheet, and started working towards becoming a cost-conscious company focused on rational growth that adds value rather than simply getting bigger for the sake of beating its chest.

Goldcorp also appears to have learned from its mistakes. The company’s recent decision to walk away from the Osisko takeover bid suggests that Goldcorp is being more prudent with its funds.

I believe the gold miners will eventually benefit from an increase in gold prices as investors around the world search to protect assets against the falling value of fiat currencies.

For investors looking to take a gold stock position, the upside potential for miners is probably greater than the downside risk at this point.

A short-term correction is certainly possible, but as a long-term investor I’m comfortable with the current valuation of both Barrick and Goldcorp and am willing to wait for better times.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
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