



4 Reasons Gold Belongs in Every Investor's Portfolio

Description

Since the financial crisis of 2008-2009, central banks have drastically increased the world's money supply. The United States is perhaps the poster child for this, as it more than doubled the supply of currency in the system, from \$1.4 trillion in 2008 to nearly \$3 trillion today. The Federal Reserve has slowly been reducing the amount of stimulus, but inflation hawks fear the damage has already been done.

At some point, inflation is going to rear its ugly head. It's only a matter of time.

In the short term, inflation doesn't seem very likely. Interest rates continue to stay low, and official numbers show that inflation is right where central banks want it. There are a few pundits who warn about it, but the consensus is that inflation is years away, assuming it is even coming at all.

Does that mean investors shouldn't hold gold? Hardly. In fact, here are three more reasons to hold it in your portfolio.

1. It's a hedge against bad news

Almost always, stock markets react to horrible news by heading downward, even if that news isn't really business-related. Gold generally bucks the trend, and acts as a portfolio hedge during times of duress.

During the financial crisis of 2008-2009, **Goldcorp** (TSX: G)(NYSE: GG) was a terrific hedge against the chaos of the market. From June 2008 to June 2009, shares were pretty much flat, albeit volatile. This easily beat out the market's overall return. In addition, the company continued paying its dividend the whole time.

Goldcorp would also be an effective hedge to protect against the next market correction, which many view as imminent. The company is a low-cost producer with minimal debt on its balance sheet, has a large cash position, and is barely trading above book value. If the price of gold shoots up, shares in Goldcorp should rise with it.

2. There are upcoming supply issues

As the price of gold has slid over the last few years, miners have responded by shuttering mines all over the world. Over the last 30 or so years, much of the new supply that's come on the market has been from central banks selling down reserves.

This creates a situation where the physical supply of gold is slowly becoming an issue. Unless miners start bringing production online, there could be a gold shortage in the future. Obviously, an increase in the price of gold would be the result.

Over the last couple of years, **Barrick Gold** ([TSX: ABX](#))([NYSE: ABX](#)) has temporarily shut the door on a few different projects, including the massive Pascua Lama mine located on the border between Argentina and Chile. To date, the company has spent nearly \$4 billion on the project, and it needs an additional \$4 billion to be ready for production.

If gold prices recover, Barrick has a massive project that's just a few years away from completion. The company has the advantage of being able to bring it online quickly, and would take advantage of higher prices at a faster pace than its competitors.

3. There's demand from investors

Increasingly, investors are turning to the yellow metal as a store of value, choosing to keep savings in gold rather than local currency. This is especially prevalent in China and India.

Canadian investors eager to add physical gold to their portfolios don't have many options. ETFs do exist that track the price of gold, but mostly in the United States, which creates a currency risk. Investing in a gold mining ETF like the **iShares Global Gold ETF** ([TSX: XGD](#)) makes sense as well, since operational risk becomes less of an issue when the investment is split between 37 different miners.

Investors can also look at **Franco-Nevada** ([TSX: FNV](#))([NYSE: FNV](#)), which doesn't actually operate any mines. It acquires the land and negotiates an agreement with an existing miner for it to do all the work in exchange for a royalty. The company offers investors the opportunity to bet on the price of gold with little operational risk. For certain investors, that's very appealing. Operational risk will usually result in more upside, but a company like Franco-Nevada will generally be safer.

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. NYSE:FNV (Franco-Nevada)
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