



3 Reasons to Bet Big on Gold With These 3 Senior Gold Miners

Description

Ongoing economic and geopolitical turmoil in Europe and the Middle East is generating considerable fear among investors, which is stoking increased volatility across global stock markets. This turmoil has also brought the spotlight firmly back onto those investments perceived to be safe havens, including gold.

Let's take a closer look at why a portion of your portfolio should be invested in gold, as well as the three senior gold miners that offer the most potential to cash in on the impending gold rally, which Wall Street is now so fond of betting on.

1. Gold is a hedge against inflation

One of the key reasons to invest in gold is that it acts a hedge against inflation. This means that unlike fiat currencies, gold retains its purchasing power over time.

At this time, the purchasing power of fiat currencies continues to be eroded by the Fed as part of its quantitative easing policy, continuing to print money in order to generate economic growth. However, this money is flooding into the global economy, causing asset prices to rise and creating asset bubbles.

2. Gold is a safe haven investment

In times of uncertainty, gold is perceived by investors to be a safe haven investment, with it typically not losing its value in times of economic volatility and market turbulence.

There is already considerable economic and geopolitical turbulence, with a range of conflicts continuing to escalate in the Middle East, the growing conflict in the Ukraine, and growing fears of the need to bail out Portugal's banking system.

3. Gold supplies are dwindling yet demand is growing

According to the World Gold Council, gold demand has continued to grow over the three consecutive

quarters from the second quarter of 2013 to the first quarter of 2014. For the first quarter of 2014, demand for gold spiked a healthy 13% compared to the previous quarter, but remained flat against the first quarter of 2013. For the same period, gold supplies continue to dwindle, falling 5% quarter over quarter and remaining flat year over year.

This supply shortage, coupled with rising demand, will continue to drive gold prices higher. This is even more so when taken in conjunction with growing market volatility because of geopolitical tensions in Europe and the Middle East, which is fueling further investor uncertainty.

How can investors cash in on higher gold prices?

All of these factors support the theory a rally in gold is imminent and that higher gold prices will be the way of the future. The key question for investors is how to cash in on firmer gold prices.

Physical ownership of gold or an ETF that tracks the price of gold, like **SPDR Gold Trust** ([NYSEMKT: GLD](#)), are two options to gain exposure to gold. The most attractive option, though, is to invest in the beaten-down gold mining industry. This is because these companies are essentially a leveraged play against the price of gold, meaning even a small spike in the gold price will translate into a significant gain in their share prices.

Three of the best miners for investors at this time are the industry's largest senior miners, **Barrick Gold Corp.** ([TSX: ABX](#))(NYSE: ABX), **Goldcorp Inc.** (TSX: G)(NYSE:GG), and **Newmont Mining Corp** ([NYSE: NEM](#)).

Each company possesses specific characteristics that leave it well-positioned to unlock value for shareholders. Barrick and Newmont appear attractively priced, with enterprise values of seven times and five times EBITDA respectively.

Although Goldcorp appears expensive with an EV of 18 times EBITDA, the company has one of the lowest degrees of leverage in the industry and has built a strong balance sheet.

All three also have solid, geographically-diverse mining assets in production and under development, leaving them well-positioned to ramp up gold production as the gold price continues to firm.

Both Barrick and Goldcorp have some of the lowest cost structures in the industry, with second quarter of 2014 all-in sustaining costs of \$865 and \$852 per ounce respectively. Newmont's all-in sustaining costs for the same period were \$1,063 per ounce, which is higher than many of its industry peers. However, the company's cost control program is gaining traction, with these costs falling a very healthy 17% year over year.

Newmont has also sold the Jundee operation in Australia for \$94 million and completed divestments of \$800 million over the last year, with these funds earmarked to reduce debt, strengthening its balance sheet. It has also elected to proceed with the development of the Merian project in Suriname, which on completion will boost both gold reserves and production.

Finally, all three miners continue to reward investors with regular dividend payments. While their dividend yields are not exactly attention-grabbing, with Barrick's being 1% and Goldcorp's and Newmont's being 2%, they will continue to reward patient investors as they wait for their share price to appreciate.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:NEM (Newmont Mining Corporation)
3. NYSEMKT:GLD (SPDR Gold Trust)
4. TSX:ABX (Barrick Mining)

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Author

mattsmith

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