



3 Things Investors Should Consider Before Investing in Gold Mining Companies

Description

The allure of gold can dazzle consumers and investors alike. Gold companies can be a solid investment option for income investors.

However, investors should conduct a significant amount of due diligence before putting money down on any gold mining company.

Here are three things to consider before investing in gold stocks.

1. Cost management is essential for sustained profitability

Barrick Gold Corp. ([TSX: ABX](#))(NYSE: ABX) is putting an emphasis on cost management. For Q2 2014, the company had all-in sustaining costs of \$865 per ounce. Its original guidance for 2014 was all-in-sustaining cash costs of \$920-\$980 per ounce. Its subsequent revised guidance for this year is \$900-\$940.

Barrick Gold is working hard to increase cash flow through reducing its costs. Company co-president Kelvin Dushnisky said in July, "Barrick will continue to focus on maximizing free cash flow and risk-adjusted returns."

Cost reductions across its operations and the resultant free cash available will allow the company to continue dividend payments to investors. Increased cash flow will also permit Barrick to carry out its strategic plan and implement programs to increase production. While reducing costs is its main focus, Barrick Gold is still upholding its 2014 gold production guidance of 6-6.5 million ounces.

2. Production problems can hinder yearly outlooks

Goldcorp Inc. (TSX: G)(NYSE: GG) revealed this week that there are production problems at the El Sauzal mine in Mexico. Therefore, the company indicated output could be close to the bottom end of its projected range in 2014.

The original expectation was that El Sauzal would produce between 60,000 and 70,000 ounces over

the rest of this year. Because of instability in a pit wall, Goldcorp has deferred mining at El Sauzal. This mine is in its final year of operation and the remediation process has already started as part of the activities essential for the closure of the mine in 2015.

In addition, Goldcorp had a stoppage in April at the Los Filos mine in Mexico. The Los Filos operation consists of two open-pit mines (Los Filos and El Bermejal) and one underground mine. The open-pit operation commenced commercial production in January 2008. The estimated mine life of Los Filos is 14 years.

3. You have to be willing to ride the gold price roller coaster

Yesterday, Mining.com reported that, "On the Comex division of the New York Mercantile Exchange, gold futures for December delivery on Thursday continued to drift lower, trading at a near three-month low." And today it reported that, "Open interest in gold rose, which with a falling price confirms futures are being driven by an increase in short positions, most probably in the managed money category."

As an individual investor you need the patience of Job to sit on your gold mining stocks. The big producers and big investors have their agendas, which you can do very little to influence.

If you are looking for some regular dividends, then you have to see the big picture and not let daily market gyrations spook you.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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