3 Reasons Why I Remain Bullish on Gold

Description

Growing economic uncertainty, coupled with escalating regional conflicts, is creating greater market volatility globally and generating fear among investors and bringing the spotlight firmly back on safe-haven investments. These investments are those perceived to have defensive characteristics and the ability to retain value during times of economic uncertainty. That brings us to one of the most popular: gold. Let's take a closer look at why this precious metal is set to rally.

1. Geopolitical and economic uncertainties continue to grow

Escalating conflicts in the Ukraine and across the Middle East including the civil war in Libya and the growth of the Islamic state in Iraq and Syria are creating considerable uncertainty among investors. This is driving greater fear in global stock markets and the volatility among share prices.

A range of economic issues is also having an impact on markets. Already, investors have witnessed the collapse of a number of emerging market currencies, including the Argentine peso earlier this year. This was followed by another Argentine debt default and Portugal's biggest banking scandal, requiring a €4.9 billion bailout.

2. There is an emerging disconnect between markets and the global economy

The Canadian as well as U.S. stock markets continue to hit new heights, with the **S&P TSX Composite Index** having shot up 21% over the last year and the **Dow Jones Industrial Index** a healthy 14%. But there are signs of a growing disconnect between Bay Street, Wall Street, and economic reality. The world's second-largest economy — China — continues to slow and while its government may have introduced a range of stimulus measures to boost economic growth, these appear to be gaining little traction at this time. Industrial activity slowed for August, with the Purchasing Managers Index, a measure of industrial activity, falling 0.6 points compared to July, to 51.1 points.

More worrying is the contraction among many of the major eurozone economies. Industrial activity in Italy and France not only slowed for the same period but contracted as well, with their PMIs of 49.9 and 46.9, respectively, hitting below the critical 50-point threshold indicating growth. Meanwhile, Germany, the eurozone's largest economy, saw its PMI hit a 10-month low of 53.7 in August.

These factors in conjunction with other weaker eurozone economic data are raising fears about deflation. For August, inflation hit its lowest point in five years with a rate of 0.3%, well below the ECB's 2% target, highlighting just how stagnant the region's economies are.

Deflation bodes poorly for the value of stocks and hard assets like real estate, but does portend well for gold, which is perceived as a hedge against financial stress and uncertainty. However, more telling for investors is the big bets being made by Wall Street on gold.

3. Institutional investors are making some massive bets on gold

For the second quarter of 2014, billionaire investor George Soros reduced his investment in **Barrick Gold Corp.** (TSX: ABX) (NYSE: ABX), dumping $122 million of stock, while investing further in the gold-mining sector.

He doubled down on his investment in the **Market Vectors Gold Miners ETF** (NYSE: GDX), lifting that bet to a massive $54 million, while retaining existing positions in **Silver Wheaton Corp.**, **Yamana Gold Inc**. (TSX: YRI)(NYSE: AUY), and **Agnico Eagle Mines Ltd.** (TSX: AEM)(NYSE: AEM). But it just isn't Soros who is betting big on a recovery in gold prices.

Hedge fund manager John Paulson retained his massive bet on gold in a $1.2 billion position in the **SPDR Gold Trust ETF** (NYSE: GLD), as well as boosting his investment in Agnico Eagle to $40 million. Another major institutional investor, John Hussman, made some big bets on gold during the same period, topping up his holding in Barrick Gold to $36 million as well as **Newmont Mining Corp.** (NYSE: NEM) to $35 million and Agnico Eagle to $13 million.

All of this highlights that the smart money on Wall Street knows something individual investors don't and are betting big on gold despite having gained 5.5% year to date.

What are the best options for investors to cash in on the impending rally in gold?

Investors can play the gold price by investing in the physical metal or through a gold ETF, but I prefer to invest in gold miners, with Yamana and Agnico Eagle being standout picks. Both offer a leveraged play on gold prices with the potential to deliver significantly better returns for investors than the physical metal or an ETF.

Both are low-cost producers, with all-in sustaining costs for the second quarter of $844 and $990 per ounce, respectively. They have a solid history of growing production, which for the same period was up 12% and 46%, respectively, compared to the second quarter of 2013.

Finally, each controls a 50% stake in Canada's largest gold mine, the Canadian Malartic mine, which is among the lowest-cost gold mines in Canada, boding well for them to boost production while reducing costs. This leaves both companies well positioned to take advantage of a rally in gold prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:AUY (Yamana Gold)
3. NYSE:B (Barrick Mining)
4. NYSE:NEM (Newmont Mining Corporation)
5. NYSEMKT:GLD (SPDR Gold Trust)
6. TSX:ABX (Barrick Mining)
7. TSX:AEM (Agnico Eagle Mines Limited)
8. TSX:YRI (Yamana Gold)

Category

1. Investing

Date
2025/07/01
Date Created
2014/09/08
Author
mattdsmith