Crash-Proof Your Portfolio: Invest in Gold Now

Description

Indications that the global economic growth is slowing along with rising geopolitical and macro-economic uncertainty, have led many investors to turn to gold as a hedge. When combined with the price of gold falling to $1,223 per ounce in recent days, I think now is the time for investors to crash-proof their portfolio by adding gold.

What is the best way to invest in gold?

There are a number of ways to invest in gold, through bullion, exchange traded funds and gold miners. While physical bullion is appealing to many investors, its wide buy/sell spreads and lack of liquidity make it a rather unattractive investment.

ETFs — like the world's largest gold ETF, the **SPDR Gold Share Trust** (NYSE: GLD) — track the price of gold but alleviate many of the problems of investing directly in physical gold. But ETFs have a crucial disadvantage compared to the gold miners; they do not provide leveraged exposure to the gold price, reducing the potential upside available to investors.

I believe gold-mining stocks are the best option when it comes to obtaining exposure to gold, particularly with many now trading at extreme lows because of softer gold prices. Over the last year, the **ARCA Gold Bugs Index** – a dollar-weighted index of the 18 largest listed gold miners – plunged 25% compared to gold's 9.5% drop for that period. This can be attributed to the leveraged nature of gold stocks to the gold price and underscores the significant potential upside available to investors, with even a small gain in the gold price set to push mining stocks higher.

However, not all gold miners are created equal and investors need to keep in mind a number of key fundamentals when selecting mining stocks. The most important of these are identifying low-cost producers with solid balance sheets and a high quality asset base.

The most impressive of the gold miners is **Goldcorp Inc.** (TSX: G)(NYSE: GG). Since the end of the gold bull market, it has successfully remade its operations to become the lowest cost gold major, with second quarter 2014 all-in-sustaining-costs of $852 per ounce. It has also built a fortress balance sheet with a handy war chest of cash should any opportunities for acquisitions arise.

Another promising opportunity is **Agnico Eagle Mines Ltd.** (TSX: AEM)(NYSE: AEM), which has attracted considerable interest from Wall Street. Institutional investors including John Paulson, George Soros, and John Hussman have made considerable investments in the company.

It is also a relatively low cost producer, with all-in-sustaining-costs of $958 per ounce. But more impressively, despite softer gold prices it has boosted its gold production, revising 2014 production guidance upwards by 15% at the end of the second quarter. Agnico's acquisition of the Canadian Malartic mine in partnership with **Yamana Gold Inc.** offers even further potential.

Both companies offer investors considerable potential upside with even a moderate rally in the gold price set to deliver solid returns.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSEMKT:GLD (SPDR Gold Trust)
3. TSX:AEM (Agnico Eagle Mines Limited)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/15
Date Created
2014/10/30
Author
mattdsmith