3 Reasons You Should Never Invest in Gold

Description

Gold is a touchy subject for a lot of investors.

I find that, generally, investors are divided into two camps when it comes to gold. The first group thinks it's a necessary addition to any portfolio, often holding a significant amount of their assets in the yellow metal. These investors think that things like hyperinflation, a economic collapse, or some other financial calamity are just around the corner. Sometimes they're right, but for the most part this has been a poor wealth building strategy.

The second group might own some gold, but only as a very small part of their portfolio. They either hold it as a hedge against inflation, or perhaps as a byproduct of owning the entire index. Many of these types of investors won't bother to hold any gold at all, opting for other assets that better guard against inflation.

Which group should you side with? My investing dollars have never been in gold, and I think most investors would be better off if they avoided it. Here are three reasons why.

1. It's a poor hedge

The most common reason for owning gold is to serve as a hedge, just in case our worst economic nightmares come true. If the Canadian dollar suddenly becomes worthless, at least gold investors will have something of value.

But what are the chances of such an event happening? Canada has been around for nearly 150 years, and our currency has survived this long. It's the same thing with the U.S. dollar and most of the currencies in Europe. Besides, if our entire economic system collapses, commodities other than gold will be the ones in demand. Gold is of little use if you're concerned with trying to barter for food or firewood.

Even if things don't turn out that badly, the fact is that over time certain asset classes are a better hedge against inflation than gold. REITs are a terrific example. They hold physical property, people need a place to live, and they can always increase rent during inflationary periods. Plus, REITs pay you a generous dividend. Gold most certainly does not.

2. Operational risk

Many investors will get their gold exposure through owning gold companies. Physical gold is tough to buy and difficult to store if you own a lot of it. Gold companies, meanwhile, tend to outperform gold when the price of the metal is going up.

But owning a gold company comes with one huge red flag, operational risk. Since managers of gold companies tend to be bullish on the price of the commodity, they tend to make decisions based on that belief. Sometimes this backfires badly.

Take **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX) as an example. The company dumped billions into its Pascua-Lama project in South America, only to have it become uneconomical when the price of gold collapsed. Now the company is left with a total debt of $13.1 billion and barely breaks even from its current operations. As a result, the stock is down more than 70% from its 2012 highs.

3. Warren Buffett hates it too

The Oracle of Omaha is famously anti-gold. He explained it using the following example, which I'm paraphrasing.

If you owned all the gold in the world, it would be worth about $7 trillion. For the same amount of money, you could own all of the farmland in the United States, seven companies the size of **Exxon Mobil,** and still have a trillion left over. Which would you rather own — a gigantic shiny piece of metal, or the combined earning power of the farmland and all that oil?

If Buffett is against it, that's good enough for me.

There's just too many risks when it comes to investing in gold. Which is why you shouldn't bother. Instead, put your money into successful, blue chip companies that form the bedrock of Canadian business. We have three we think you're going to like.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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