

Why Gold Belongs in Every Investor's Portfolio in 2015

Description

The prospects of a global recession are appearing increasingly likely with a range of macro-economic events highlighting that the U.S. economic recovery may not be enough to keep the global economy growing. This highlights the importance for investors to prepare for every contingency and weather-proof their portfolio by investing in safe haven assets, of which the most widely recognised is gold.

Let me explain why.

Growing macro-economic instability in emerging markets

Despite the U.S. economy finally firing on all cylinders, there are signs all is not well with the global economy, particularly in emerging markets. Not only is the world's second largest amalgamated economy, the European Union, struggling to bounce back, there are further signs China's economy will slow further on the back of a declining real estate sector and weak industrial activity.

This is already having a significant impact on commodity prices with declining demand for crude seeing prices fall well below US\$60 per barrel, creating a crisis among some of the world's largest emerging economies.

Both Venezuela's and Russia's economies have already fallen into crisis because of softer crude prices, while Brazil, the world's seventh largest economy, remains in recession and is extremely vulnerable to oil shocks with petroleum products being its top export.

Of even greater concern is the outlook for China, with some analysts fearing the ongoing decline in its real estate sector could turn into a full scale rout with the market still overly frothy despite investment in the sector declining for 10 straight months at the end of November 2014. If this were to occur, there is a real threat of China's US\$6 trillion shadow banking system collapsing, threatening the global economy.

The end result is that the growing crisis among emerging markets could fuel a rapidly spreading global economic contagion that even the U.S. could not escape unscathed.

The potential collapse of the Euro

Despite the Eurozone avoiding a triple-dip recession, there is a long way to go before it out of the woods, with it yet to make any meaningful recovery after the 2008 global financial crisis.

Once again Greece finds itself caught in economic crisis and there are growing signs it will leave the Eurozone as domestic discord against austerity measures continues to grow. This, as speculated by a number of analysts, could cause the Euro to collapse leading to further economic problems for Germany, Europe's largest economy. It would also see the threat of deflation, which is already on the near-term economic horizon, become a reality, triggering a collapse in the prices of assets like stocks and real estate to fall.

Each of these factors could create the perfect storm derailing the U.S. economic recovery and plunging the global economy into recession. This highlights the need for investors to weather-proof their portfolio and the best way to do so is by taking a modest position in gold, the most widely recognised safe haven investment.

What is the best way to invest in gold?

There are a wide range of options available for investing in gold and I believe by far the best opportunities lie among beaten-down gold miners. This is because unlike bullion or an ETF, they offer leveraged exposure to the price of gold, meaning even a modest bump in the gold price will translate into a significant jump in their share price.

I believe the best opportunity among the miners is **Goldcorp Inc.** (TSX:G)(NYSE:GG), which unlike many of its peers continues to weather softer gold prices exceptionally well. This is because it has developed a diversified high quality asset base composed of 54 million ounces of gold and 818 million ounces of silver, which gives it the opportunity to take advantage of any rebound in silver prices.

Furthermore, its relentless drive to lower costs saw it report third quarter all-in-sustaining-costs or AISCs of US\$1,066 per ounce, which are among the lowest in its industry and give a solid margin even with gold at US\$1,200 per ounce. Finally, Goldcorp has a fortress balance sheet with a low degree of leverage and a high degree of liquidity with US\$376 million of cash on hand.

CATEGORY

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Author

mattsmith

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