



Why Investors Are Starting to Buy Gold Mining Stocks Again

Description

Over the past couple of years, gold miners have been absolutely despised by investors, and it's easy to see why. Companies have been burning shareholder money with poorly timed investments and awful execution, all while the gold price has fallen dramatically. Many investors have given up on the sector altogether.

That said, the tide may be turning. In an interview with *The Financial Post*, **Goldcorp Inc.** (TSX:G)(NYSE:GG) CEO Chuck Jeannes said he sees "some green shoots of optimism emerging." In other words, investors are finally starting to take some interest in his company after ignoring the sector entirely for years.

So, why are investors warming up to Goldcorp? More importantly, does this mean gold stocks are poised to take off? We take a look below.

A bottom

Mr. Jeannes said that more and more investors believe that gold prices have bottomed out at US\$1,200 per ounce. There's a strong case to be made for this. After all, every time the gold price has fallen below this level in the past two years, it's rebounded quickly.

There are other reasons to believe gold has plenty of upside. For one, mine production could soon start declining, thanks to a lack of gold discovered in recent years. Exploration companies are having trouble getting financed, which also doesn't bode well for future production. If that wasn't enough, established mining districts like Nevada and South Africa are already seeing declining production.

Meanwhile, investor demand could easily pick up due to low interest rates, problems in Europe, or demand from China.

A cheap sector

Let's face it: stocks are far more expensive than they were five years ago, or even three years ago. So, finding good investment opportunities has become a lot harder. A notable exception is in gold mining.

As Mr. Jeannes put it, “One generalist told me they’d never seen a sector that has that big a spread with the general market. That told them it’s time to invest in that sector.”

Let’s put some numbers on this. Over the past three years, the **iShares S&P/TSX Global Gold Index ETF** has fallen by about half. By comparison, the **iShares Core S&P 500 Index ETF** has doubled in value over this time.

Whether that makes gold companies cheap is another question. However, in a world with such expensive stocks, it’s not surprising to see investors take a look at a sector that’s been so battered.

Goldcorp vs. the industry

Before you go racing ahead to buy gold stocks, you should take Mr. Jeannes’s words with a grain of salt. This is partly because he will always make the best case for his company. Furthermore, Goldcorp has long been one of the best performing gold stocks. As a result, its stock is more popular among investors and trades at a premium.

So, if the CEO of a struggling gold mining company was saying the same things, I would pay a lot more attention. Until then, this is something you should keep an eye on.

CATEGORY

1. Investing
2. Metals and Mining Stocks

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/22

Date Created

2015/03/05

Author

bensinclair

default watermark

default watermark