Should Investors Buy Goldcorp Inc. After it Was Upgraded ?

Description

Analysts have upgraded their outlook for the world's largest gold miner **Goldcorp Inc.** (TSX:G)(NYSE:GG), but given the increasingly pessimistic outlook for gold, it is difficult to understand why.

Now what?

Among gold miners, Goldcorp stands out as one of the best investment opportunities for anyone looking for exposure to the lustrous yellow metal. It has a number of strengths, including a strong balance sheet that is highly liquid, with cash of US$482 million and a low level of leverage with net-debt a manageable two times EBITDA.

It also continues to report relatively low all-in-sustaining-costs that were US$949 per ounce for 2014, which is an 8% reduction year-over-year.

When coupled with Goldcorp's portfolio of high quality assets and projects under development, as well as its war chest of cash, Goldcorp is well positioned to generate further profits. This is even after the recent slump in gold, with the precious metal having softened by almost 7% over the last six months.

Nonetheless, despite these strengths I believe that now is not the time to invest in gold or gold miners.

You see, the outlook for gold continues to grow more unpredictable each passing day. It has already slumped by 16% from its 52-week high last year to now be around US$1,160 per ounce.

This comes on the back of the latest round of selling that was triggered by speculation that the Fed is closer to raising interest rates, because the U.S. economic recovery is progressing better than expected. Essentially, rising interest rates are bad for gold prices because investors seek higher rates of return from more productive growth assets.

Some analysts have predicted that gold will fall lower over the remainder of 2015 and into 2016, with it under pressure from a resurgent U.S. dollar, rising interest rates, and weak oil prices. Analysts are predicting that it could fall to US$1,000 per ounce or even lower, with the U.S. economy expected to grow strongly for the remainder of the year and S&P 500 set to hit higher levels on the back of this growth.

So what?

Despite Goldcorp being a well-managed company that is attractively priced with its solid portfolio of gold assets, the outlook for gold does not make it a good investment opportunity. This is because gold miners like Goldcorp are a leveraged play on the price of gold, meaning that as the price of gold appreciates, their share price grows at a far greater rate. However, the opposite occurs as gold prices weaken, and in an environment where gold prices are expected to fall, the outlook for Goldcorp is not that attractive.

I believe investors have the opportunity to obtain superior potential returns in growth-oriented industries that can cash in on a stronger U.S. economy. These include banking, particularly **Toronto Dominion Bank** because of its considerable U.S. exposure, and railways, with **Canadian National Railways Company** well positioned to profit from the additional demand for freight services generated by U.S. economic growth.

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