3 Easy Ways Anyone Can Invest in Gold (Without Buying a Gold Miner)

Description

Gold is an interesting asset to hold in a portfolio. It's just too bad mining it is such a crummy business.

Think about everything a gold miner has to go though. Oftentimes the most attractive fields are in countries with substantial political risk. There aren't enough skilled workers to go around, so employees are brought in at a high cost.

Then there's the financing needed to get the mine from a dream to reality. Cost overruns are common, even with miners with a history of developing cheap production. It takes years to take a barren piece of land and turn it into a working gold mine, which creates its own set of risks. What happens to the price of gold in the meantime?

And then there are operational risks. Machinery is constantly breaking down. The price of fuel is a huge factor that won't always have the benefit of $55 oil. It's really easy to have operational costs balloon out of control, too.

The good news for investors is there are ways to invest in gold without taking all the operational risk of picking a miner. By buying one of these three stocks, you can get the best of both worlds—gold exposure without all that other stuff.

Franco-Nevada

Franco-Nevada Corporation (TSX:FNV)(NYSE:FNV) is a gold royalty company, meaning it just finances the construction of gold mines in exchange for getting a sweet deal on a certain percentage of the production.

Let's look at a recent deal it did as an example. For US$648 million, the company acquired the right to buy 68% of the mine's production until hitting 720,000 ounces of gold and 12 million ounces of silver. After that, it gets 40% of all production, all for a price of $400 and $4 per ounce for gold and silver, respectively. Based on today's gold price, the deal becomes profitable for Franco-Nevada around the time it hits the 720,000 and 12 million ounce levels. Everything after that is gravy.

It's a good deal for both sides. Investors in Franco-Nevada get dependable cash flows, all while taking on very little operational risk. The miners get access to capital without taking out huge loans. It's little wonder why royalty deals are becoming more commonplace in the sector.

Central Fund

The **Central Fund of Canada Limited** (TSX:CEF.A)(NYSE:CEF) is a really simple fund with a compelling reason to buy it.

All the fund does is hold physical gold and silver. It holds 1.7 million ounces of gold, which is worth about $2.5 billion. It also holds 77 million ounces of silver, which is worth about $1.5 billion. That's the whole investment right there.

So, why is it interesting? Because it trades at a nearly 9% discount to the value of the underlying gold and silver. Looking at the history of the fund, that's about as wide as the gap between the share price and net asset value gets. During times when gold does well, the fund will actually trade at a premium to the price of the metals.

The play is simple. If you're bullish on gold, the Central Fund seems like a pretty easy way to goose your eventual returns by 10%.

The ETF option

Another easy way to avoid operational risk is to just buy the whole sector. The **iShares S&P TSX Global Gold Index Fund** (TSX:XGD) is the largest gold miner ETF in Canada with a market cap of more than $500 million and an average daily trading volume of 400,000 shares.

The only real downfall of buying this ETF is the concentration. The largest three companies make up nearly 40% of the total assets. There's still plenty of diversification there with 40 total miners included, but it is something for investors to keep in mind.

Still, it, like the others listed, gives investors a good alternative to owning an individual gold miner. This is a good thing, especially for those of us without the expertise in the sector to choose a good operator.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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