



## Does Greece Prove That Gold Has Lost its Luster?

### Description

For the most part, I am not a huge fan of gold. Like Warren Buffett says, “(It) gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.” Unlike silver, which has significant utility in electronics, gold really doesn’t have much use.

The reason people love it so much is that they believe that it is a great store of value and when things go bad, gold will be the saving grace. If a currency is plummeting, buy gold and wait for the currency to regain its value. Because of this belief in gold as a great store of value, companies like **Goldcorp Inc.** (TSX:G)(NYSE:GG) focus entirely on digging up the resource.

Because of this, when there is a crisis, such as what has been going on in Greece, people run to gold as a safe haven. If Greece leaves the Eurozone, there is considerable concern that the euro could soon become pretty useless. Over the past year the euro has grown much weaker. Fundamentally, this was the perfect opportunity for gold to break out of its very stable, unexciting trend and spike up.

Yet it didn't. While Greece voted no on the referendum and it looked as if there was going to be a Grexit, the price of gold dropped. While the amount it dropped wasn't terribly significant at approximately US\$20 per ounce, there's something to be said about the world's token “store of value” losing value in a time of crisis.

There have been many theories about why this is the case, including the fact that people are starting to look to bitcoin as a better store of value, and that gold is already overpriced, so there really wasn't much place for it to go. But if this is the case, does that suggest that Goldcorp could have a rocky future ahead of it?

**If gold stays stagnant, growth stays stagnant**

Because Goldcorp is reliant on the price of gold to generate its revenue, when the price of the asset doesn't rise, it doesn't give the company much of a chance to increase its profit. While Goldcorp can focus on increasing efficiency, and the company is quite good at that, this Greek crisis gives me concerns that perhaps gold is at its peak.

This isn't to say that investors need to immediately dump their Goldcorp stock. The company is still very well run. It is increasing supply, which will help it generate more revenue. And it still does pay a lucrative 3.63% yield. But what investors need to keep in the back of their mind is that gold should have spiked when the fears of a Grexit were becoming more likely. Instead, the price of gold dropped. If gold has lost its luster as a store of value, could Goldcorp be in for a rocky future?

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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## Date

2025/08/04

## Date Created

2015/07/14

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