Why You Should Sell Barrick Gold Corp. and Buy Toronto-Dominion Bank Today

Description

The U.S. Federal Reserve may finally be ready to raise interest rates, a move that would have profound impacts on the American economy.

Of course, rising rates will also have a big impact on stock prices, even up here in Canada. So, we take a look at one trade to make in anticipation of rising rates: sell **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and buy **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD).

Why rising rates are so bad for Barrick

As we all know by now, Barrick has seen better days. An unwise acquisition in Africa and a botched project in South America have left the company saddled with US$13 billion in debt. To dig itself out of this hole, Barrick desperately needs higher gold prices. Unfortunately, the gold price has been steadily decreasing in recent months, and now sits below US$1,150 per ounce. And if interest rates do rise, this will likely cause gold to fall further.

There are a few reasons for this. First of all, higher interest rates will encourage investors to buy bonds and GICs rather than hard assets like gold. Second, there will be less fear of massive inflation. Finally, increasing interest rates are a positive for the U.S. dollar, another negative for gold.

Worst of all, Barrick could find itself in real financial trouble if gold prices fall much further. The company projected financing costs of over US$800 million for this year, which would consume about half of gold mining cash flow at today’s prices. This leaves the company seriously exposed to falling gold prices.

Why rising rates are so good for TD

Of all the Canadian banks, TD has the most meaningful presence in the United States, with more branches in the U.S. than in Canada. Unfortunately for the bank, the U.S. banking environment is still very tough. Competition is intense, loan demand remains depressed, and low yields are severely compressing margins.

Rising rates would help a lot. TD could charge more for its loans, thus boosting margins. Loan demand may also pick up if enough borrowers want to secure their loans before rates rise further. Meanwhile, the industry continues to consolidate, and rising fixed costs are making it harder for smaller players to compete with the likes of TD.

It's not too late

None of these facts are lost on investors. Barrick shares are down about 30% since the beginning of February. But TD shares have also been lagging, down about 6% since late May. So, it's not too late at all to make this switch, especially since the story could get a lot worse for Barrick.

CATEGORY

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2. NYSE:TD (The Toronto-Dominion Bank)
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