Could Gold Really Hit $5,000 or Even $25,000?

Description

Predicting the price of gold has been the passion of investors for as long as the precious metal has been, well, precious.

These days there is no shortage of outrageous forecasts in both directions, but even the most ardent gold bulls can be forgiven for being skeptical when they hear calls for a run to $5,000 per ounce as predicted by Peter Schiff, CEO of Euro Pacific Capital.

Another forecast released in June suggests gold is destined for $25,000 per ounce.

Gold's waning appeal

Gold's performance has been absolutely abysmal for the past four years, dropping from its September 2011 high of $1,921 down below the $1,100 mark in recent weeks. The World Gold Council says global demand dropped 12% in the second quarter of 2015, hitting its lowest level in six years.

Aside from its jewellery appeal, which accounts for 60% of demand, gold is supposed to be a safe haven for investors in times of financial crises as well as a strong hedge against inflation.

The safe-haven status seems to be fading as markets regularly shrug off the threat of wars, financial meltdowns, and epidemics.

As for inflation, the world's leading industrial countries are more concerned with deflation than runaway inflation.

China effect

The Chinese government just surprised global markets with a devaluation of its currency. This has set off fears of a global currency war and put a tailwind behind the price of bullion, but I suspect that will likely fade considering the global race to devalue has been going on for some time already.

How to play a rebound

The current environment gives little reason to believe gold is setting up for a massive rally, but what happens if the gold super-bulls are right? What if Peter Schiff is correct in his view that all the money printing is such a strong drug that central banks will never be able to quit? Will inflation finally win? Could markets finally decide to throw in the towel on the fiat system?

That's what keeps the gold bulls stoked and investors in the game.

Here in Canada we have a lot of gold companies and they have been great destroyers of investor wealth over the past four years, so you might be inclined to buy physical gold, or a gold ETF, instead of mining stocks.

That might not be the best way to go.

The devastation in the market has forced mining executives to change their ways and finally focus on building well-run, cost-efficient companies. As a result, several of the industry's top players are now well positioned to profit handsomely if gold really does move higher.

Investors have no shortage of choices, but one company that is often cited as the go-to stock in the sector is **Goldcorp Inc.** (TSX:G)(NYSE:GG). The miner just reported decent Q2 results despite the difficult environment. Production is increasing, costs are dropping, and the company has a strong balance sheet.

Another option is **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) which is primarily a silver streaming company, but also has strong exposure to a gold rally. The attraction here is that Silver Wheaton doesn't come with the risks associated with owning the miners directly, and you get great upside potential on stronger precious metals prices.

Will gold go to $5,000 or $25,000?

Gold prices might have bottomed, or they might continue to slide before finally reversing course. I have no idea what will happen next and neither does anyone else. If Schiff is right, you definitely want to be ahead of the curve, and diversification is important for every portfolio, so it probably isn't a bad idea to have a bit of gold exposure—just in case.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)

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