

3 Interesting Gold Stocks for People Who Hate Gold

Description

I am not a gold bug. I'll let billionaire investor Warren Buffett explain why I'm not a fan of the yellow metal: "[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."

I prefer to take my cash and invest it in other things. When I buy shares in a business that I use every day or one that has an easily identifiable moat, I see a way to contribute to the overall growth of the world economy while making money in the process. Because I feel gold has a marginal utility at best, I don't feel that same sort of pride about investing in gold.

But saying that, I do have some gold exposure in my portfolio. As a value investor, I'm constantly on the prowl for mispriced assets. Sometimes my searching brings me to the precious metals sector. The recent decline in commodity prices has made the sector an interesting place for the enterprising value investor.

Here are three potential value investments in the gold sector.

Dundee

Dundee Corp. ([TSX:DC.A](#)) is an interesting conglomerate. It has exposure to everything from gold to real estate. The company is perhaps best known for its skill as a wealth manager, culminating in selling its mutual fund business to **Bank of Nova Scotia** in 2011. The non-compete clause it signed as part of that deal recently expired, leaving it free to get back into the wealth-management business.

What really attracted me to Dundee shares was the discount to book value. As of June 30, the book value of Dundee's shares was more than \$21 each, while shares currently trade at \$7.64 each.

This huge spread is because of a few factors, including recently getting kicked out of the TSX Composite, founder Ned Goodman selling shares, and because investors are bearish on the oil and gold sectors, which collectively represent more than 40% of the book value.

I'm happy to invest in just about any sector at a 64% discount. Even if it is gold.

Central Fund of Canada

Central Fund of Canada Limited (TSX:CEF.A)(NYSE:CEF) is an interesting, albeit pretty simple, asset.

It holds 1.694 million ounces of gold bullion, 76.964 million ounces of silver bullion, a small amount of cash it uses to pay the trustee managing the assets, and a small one cent per share annual dividend.

There are numerous advantages to buying Central Fund compared to physical gold or silver. The

company stores it for investors, who don't have to incur their own expensive storage costs. And the spread between the bid and the ask price for shares is smaller than if a retail investor went out and bought gold themselves.

The biggest advantage is the price, with the fund currently trading at a discount to its market value. The closing price on Friday was \$14 per share on the TSX, while the net asset value was \$15.74. That's a discount of 11%.

When gold was really in favour back in 2008-09, investors flocked into Central Fund, causing the shares to trade as much as 29.43% above net asset value. When investors get really bullish on gold again, they'll flood back into Central Fund.

Silver Wheaton

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is almost like a bank combined with a precious metals company.

It finances mine developments in exchange for the right to buy a certain amount of output at a very low price. It then sells that output to the market, pocketing the difference. So, it's practically ensured a profit, but it still has exposure to precious metals prices.

Silver Wheaton has traditionally been a silver play, but the company is moving more into gold. It has a solid balance sheet with very little debt, giving it the potential to grow the number of streaming deals. And there's certainly an argument for investing in both gold and silver while prices are depressed.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:DC.A (Dundee Corporation)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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