



Should Investors Buy Goldcorp Inc. or Avoid Gold?

Description

It appears that it's not just black gold that is having problems, but the shiny kind, too. Gold is down 44% from its high of US\$1,921.50 per ounce and it could very well continue to drop. With prices dropping, investors are looking to get out now, sending the price of the precious metal even lower.

The primary reason that gold remains so low is because it doesn't have a utility. Many investors will argue that a store of value is its primary use, but it doesn't follow that trend. When people are afraid, they tend to buy gold. And at this point in time, there is tremendous uncertainty in the world economy as well as geopolitical hotspots such as the Middle East, Europe, and China.

And yet ... the price continues to drop. As a store of value, gold is increasingly being forgotten. And as that continues, I expect the price to drop even more. People are trusting the U.S. dollar more than they are trusting any other asset.

But it's not just gold. Silver and platinum are also dealing with low prices, resulting in decreased margins, and in some cases, a lack of profit for some of the largest miners.

For a miner like **Goldcorp Inc.** (TSX:G)(NYSE:GG), low prices of its primary commodity can be a very risky business. If prices continue to stay low, a miner can find itself spending more money to dig the asset out of the ground than it could ever make selling it.

The bad news is, it's showing. Goldcorp had a dismal quarter, posting a net loss of \$192 million. During the same quarter in the previous year, Goldcorp only lost \$44 million. The increase in loss can likely be attributed to the company bringing less money per ounce of gold.

Though there was a loss, it wasn't all bad news for Goldcorp. The company has been able to ramp up production, going from 651,700 ounces per quarter to 922,200 ounces. That increase in production has allowed it to offset the decrease in margins, but the reality remains: it is losing money.

If I were you, I would avoid Goldcorp. But if you remain bullish on gold, there are two primary reasons that you should consider Goldcorp over other gold companies. The first has to do with its efficiency. Last year it cost Goldcorp \$1,066 to get an ounce of gold out of the ground. This year it only costs

\$848. Increased efficiency allows it to keep its losses relatively low.

The other reason is because of its debt. During its quarterly call, Goldcorp revealed that it had paid back its revolving credit. That puts it in incredible position to survive depressed gold prices; if worse comes to worse, it can always use debt to pay for its operations.

All of this leads to the possibility that Goldcorp could start buying. As with oil companies, when the price of the commodity drops, the big boys can start buying. If gold continues to drop, Goldcorp may look to buy another company. That would help Goldcorp further increase its production, allowing it to generate more revenue.

My bet is to stay away from gold. But if you have to be in the sector, Goldcorp is the way to go.

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