



Gold Is on the Rise: Is it Time to Buy Goldcorp Inc.?

Description

One of the last articles I wrote in 2015 was about how I don't like gold as an investment, especially during a bull market. But I said that if you had to have gold in your portfolio, buy **Goldcorp Inc.** (TSX:G)(NYSE:GG). Then 2016 hit and everything went insane.

For starters, analysts are now predicting that we are in a bear market. As one person tweeted, "I declare this the first bear market of the millennial generation." The markets had been good for so long that many who came of age right around the financial crisis don't know anything but "up, up, up."

Then the Chinese stock market experienced some serious drops, requiring the Chinese government to shut the stock market down while it tried to figure out what was going on. Fear of currency devaluation has many investors in China worried. Finally, there are tensions in the Middle East, and North Korea is saying it exploded a hydrogen bomb.

So for lack of a better word, there's a lot of uncertainty in the markets right now.

And during times of uncertainty, people go to what they know, which is gold. And while I am not comfortable saying that gold is back, I believe that 2016 might prove to be unknown for investors. Many are predicting it'll go up, but there are still many others who think that the markets are entering a bear period.

This is great news for Goldcorp

The company has been making moves over the past year to become an incredibly efficient operation because the expectation was that gold prices would remain depressed for quite some time. Consider that last year it cost Goldcorp \$1,066 to get an ounce of gold out of the ground. This year it has only had to spend \$848.

But it's not just that the company is efficient—it has remained hyper-efficient while ramping up its production. Its Q3 2015 production was 922,200 ounces, which was a 42% increase year over year. We'll know at the end of the fourth quarter if it is on the high end of its 3.3-3.6 million ounce production guidance.

Goldcorp is operating as though gold prices are going to stay depressed for a long time, which is good news for investors. While a few days of positive growth in the price of gold is certainly not a lasting rally, Goldcorp will be in an incredible position to profit off much larger margins if the price continues to move up. And with the company paying off debt and with its revolving line of credit paid back, I believe that the company will be able to experience tremendous growth in 2016.

But the good news for investors of Goldcorp is that even if the price of gold doesn't rise significantly because people are either not that fearful or they move to other assets instead, the company is in a really good position. It's efficient, it's increasing production, and it doesn't have that much debt. This makes it a relatively secure investment. Therefore, whether the price of gold rises or not, I think Goldcorp is the best exposure to gold for investors.

CATEGORY

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