3 Reasons to Invest in Gold

Description

In recent months, precious metals including gold have surged ahead as growing global economic and geopolitical uncertainty trigger a flight to safety among investors. The lustrous yellow metal is up by 23% over the last year, trading at its highest point since mid-March 2014. Despite claims among some analysts that gold is poised to pull back, there are signs that indicate it has further to run.

Now what?

Firstly, the growing consensus among analysts is that gold has entered a new bull market after being trapped in a bear market over the last years.

In mid-May of this year **JP Morgan** was advising its clients to position themselves for a new and very long bull market in gold. The reasoning behind this was that in an economic environment where negative interest rates dominate and bond yields are at historical lows, gold is an attractive hedge and risk-off investment. This sentiment appears to stretch across the major banks; **Bank of America** subsidiary Merril Lynch expressed a similar view.

Meanwhile, investment guru George Soros, who once famously broke the Bank of England, has been loading up on gold and gold miners, and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) is among his largest holdings.

Secondly, growing economic and geopolitical insecurity makes gold an invaluable hedge against uncertainty and market volatility.

Gold is perceived to be a store of value and a safe-haven asset in times of turmoil. With the global economy filled with fissures and entering an era of uncertainty both economically and politically, investors are growing increasingly wary and are hedging their bets against another financial crisis.

Already, investors have witnessed the impact of the Brexit on global financial markets and the additional uncertainty this has generated; the Brexit has the potential to cause the world's single largest collective economy, the European Union, to disintegrate.

Then there are fears that China's growth is unsustainable, and that it is caught in a massive financial bubble, which is heading for a catastrophic meltdown. As China is the world's largest consumer of commodities and the second-largest economy, any crisis will certainly spill over into the global economy and have an impact on Canada.

Each of these factors indicate that the world is just one step away from another economic crisis that could send stocks tumbling. As gold is a safe-haven asset that is negatively correlated to stocks, it is the perfect hedge against the next economic crisis.

Finally, gold is an important backstop for the value of fiat currencies, meaning that central bank buying will continue.

You see, a large number of central banks across the globe have implemented quantitative easing (QE), which is essentially a form of money printing, the value of their fiat currencies is being eroded. As a result, many, such as the European Central Bank, or ECB, have been buying gold in order to backstop the value of their currency.

Investors are also fearful of the corrosive effect of QE on currencies. This sentiment is one of the major drivers of the 2011 gold bull market. These fears, along with the simultaneous decline in U.S. and European bond yields, is unequivocally good for gold and will further support higher gold prices.

So what?

Despite being critical of gold as an investment, it is increasingly clear that now is the time for investors to hedge against growing economic uncertainty by adding gold to their portfolios. One way of gaining leveraged exposure is by investing in gold miners.

It is easy to see why Soros made a big bet on Barrick. Not only will it benefit from gold's recent rally, but it has some of the lowest operating costs in the industry, reporting second-quarter 2016 all-in sustaining costs of US$782 per ounce. This means that with gold trading at over US$1,300 an ounce, Barrick is capable of generating a healthy margin for every ounce it mines.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
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