# What Is the Best Way to Invest in Gold?

## Description

Gold, a controversial asset, has experienced a strong reversal in its fortunes, surging to an almost two-and-a-half-year high in July after the Brexit was announced. This triggered considerable interest in beaten-down gold miners with the **NYSE Arca Gold Bugs Index**–a dollar-weighted index of the largest listed gold miners–surging by 124% for the year to date.



In a time when the global economy is performing poorly and is prone to crisis, now is the time for investors to hedge against uncertainty by adding some exposure to gold to their portfolios.

Nevertheless, it does pose the question as to what the best way is to obtain this exposure as there are a multitude of possibilities when investing in gold.

**Now what?**

Investors can buy physical bullion, but this comes with many drawbacks. Key among them is its lack of liquidity, which forces smaller investors to buy at retail prices and sell at wholesale prices, creating a sizable difference between buy and sell prices. This means that prices would need to appreciate substantially if they are to sell at a profit.

Then there are gold ETFs, the largest being the **SPDR Gold Trust ETF** (NYSE:GLD), which has soared by 26% for the year to date.

It has become a popular means of owning gold among Wall Street investment gurus and billionaire investors such as George Soros. During the last quarter, Soros dumped his entire 54 million shares of **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and invested US$29 million in the SPDR Gold Trust.

Despite its advantages over physical bullion, the SPDR Gold Trust has some drawbacks. There is a return-eroding expense fee of 0.4%, and it doesn't give the same leveraged exposure to gold that gold miners offer. These characteristics mean that it can never outperform gold or even generate an equivalent return.

Another option are gold mining stocks. They give investors the same liquidity as an ETF and the ability to earn outsized returns because of their leveraged exposure to gold. This essentially means that in a market where the price of gold is rising, they appreciate at a far greater rate. When examining Barrick Gold, this becomes clear; its stock rose in value by a massive 121% for the year to date compared to the 27% for gold.

Many miners also pay a dividend, which means they provide a means for investors to generate income from gold, which is a non-yielding asset.

Nonetheless, investing in miners is not without its dangers. Mining is an activity fraught with significant risks that can sharply impact a miner's bottom line.

A superior means of obtaining the same leveraged exposure but with a lower degree of risk is by investing in precious metals streamers such as **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW).

Precious metal streamers don't engage in mining activities; instead, they render financing to miners in return for a royalty of the precious metals produced at well below spot prices. Consequently, they have lower costs, substantially fewer operational risk, and typically a more diversified asset base than the miners.

In the case of Silver Wheaton, it has a diversified asset base composed of over 20 precious metal purchase agreements across the Americas and Europe, giving it reserves of 773 million ounces of silver and 12 million ounces of gold. It also has an inexpensive cost structure, reporting second-quarter cash costs for gold of US$393 per ounce–well below Barrick Gold's US$578 per ounce.



**So what?**

Silver Wheaton's low-risk operating model, economical costs, and diversified asset base offer investors one of the best ways to hedge against economic uncertainty and any further financial crises.

**CATEGORY**

1. Investing
2. Metals and Mining Stocks

**TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. NYSEMKT:GLD (SPDR Gold Trust)
3. TSX:ABX (Barrick Mining)
4. TSX:WPM (Wheaton Precious Metals Corp.)

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