Why the Party Is Not Yet Over for Gold

Description

After surging in July to its highest price in well over two years because of growing fears over the health of the global economy, gold has pulled back sharply in recent days. It has plunged 8% from that August high to now be trading well under US$1,300 per ounce.

This has led some market pundits to conclude that the new bull market in gold is over and that there is more downside ahead for the lustrous yellow metal. While there are a range of factors, including a stronger U.S. dollar and the growing likelihood of a rate hike weighing on gold, there are also signs that the pullback may only be temporary.

Now what?

One of gold's most important and widely accepted roles is to provide a safe haven during times of market volatility, geopolitical crisis, and economic uncertainty.

There are clear indications that the global economy is far from healthy.

Europe remains caught in a deep economic slump, and there are growing signs that it has another banking crisis on its way.

Italy is the new sick man of the Eurozone, and there are fears that it will go the same way as Greece and be unable to bail out its banks, which have toxic loans that are worth over a fifth of its GDP.

And despite China experiencing a recent uptick in economic activity because of Beijing's stimulus efforts, it continues to see economic growth spiral downwards. Besides slower economic growth, there are fears of a massive debt bubble, which is being inflated by Beijing's overreliance on debt to prop up failing state enterprises and stimulate economic activity.

Then there are crises that are being felt among a host of emerging economies, because of weak commodity prices coupled with loose fiscal policy.

Investors should keep in mind the potential of the Brexit to tip the United Kingdom into recession.

London has finally set a deadline to exit the E.U. This will trigger further uncertainty about the viability of the E.U. as a supranational political and economic entity by supporting the aspirations of a number of nationalistic and secessionist parties that have arisen in some member states.

The failure of quantitative easing coupled with zero to negative interest rates in many developed economies is eroding the value of fiat currencies as well as the returns investors can generate from holding long-term fiat currency investments such as bonds.

According to investing legend billionaire Ray Dalio, this makes safe-haven stores of wealth such as gold more attractive.

So what?

It is difficult to predict what direction gold will take, but there are plenty of upside catalysts even with the renewed threat of the Fed raising interest rates before the end of the year. All it would take is further economic or geopolitical ructions in the E.U. or the collapse of a European bank to send gold rocketing skyward.

The latest pullback has given investors a handy entry point to add gold to their portfolio and use it as a form of insurance against any further crises. Possibly the best option at this time is gold streamer **Franco Nevada Corp.** (TSX:FNV)(NYSE:FNV).

It doesn’t operate mines; instead, it finances the operations of gold miners, so it is exposed to less risk and has far lower costs. This means that its margins grow at a far greater rate when gold rises, and it can remain profitable at prices the miners can’t if gold falls. Then there is its globally diversified portfolio of assets that also gives investors exposure to silver, platinum, and crude, which further helps to reduce investment risk.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:FNV (Franco-Nevada)
2. TSX:FNV (Franco-Nevada)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/25
Date Created
2016/10/06
Author
mattdsmith