



Contrarian Investors: Should You Pick Up Shares of Barrick Gold Corp.?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) reported Q3 2016 results last week, and it was a decent quarter that had a significant amount of free cash flow generation for the quarter. There's no question that gold had a terrific run earlier this year, but the stock has since gained some negative momentum.

Billionaire investor George Soros recently sold a huge portion of his investment in Barrick, as he took home a return on his trade. Should you follow him and jump out of gold, or is there still room to run for gold and Barrick?

A strong third quarter

Barrick had a huge surge in free cash flow of \$674 million in Q3. This amount of free cash flow is much higher than the previous two quarters in the year. Q2 2016 saw \$274 million and Q1 saw just \$181 million in free cash flow.

The operating cash flow is a very impressive 3.8 times its net income with a very healthy free cash flow margin of 13.9%. I believe this is an indicator that Barrick is taking steps to improve its operational efficiency. However, no matter how efficient an operator the company is, gold still needs to go higher for the business to continue delivering impressive returns.

Barrick has very poor long-term revenue growth at -5.3% over the past five years and a horrid return on equity (ROE) of -26.4%, which means the company struggles to generate profit if gold falls below \$1,000/ oz.

There is also a considerable amount of debt on Barrick's balance sheet that needs to be addressed. The management team introduced a debt-management strategy which will help reduce Barrick's debt by a whopping \$2 billion by the conclusion of this year.

Although it was a good quarter for Barrick, I believe the stock might have lost its lustre, as gold prices could continue its negative trend downward, which might see it hit the lows experienced late last year.

Is now the right time to buy Barrick or gold in general?

I'm a firm believer that all investors should have at least some exposure to the gold sector; gold is a terrific insurance policy if there's ever a market meltdown. However, I believe no investor should allocate more than 10% of their portfolio to gold, and it would be quite reckless to buy more at this level considering the huge downward momentum that gold is facing right now.

Catching a knife is never a good strategy to investing, and if you're keen on allocating a portion of your portfolio to gold, I would wait until the downward trend subsides. If you think the market is headed for a crash course, then you might want to load up on gold, but no more than 10%, as gold is not a great long-term investment and you'd be better off holding bonds if you're afraid of a market crash.

Warren Buffett is not a fan of gold, and neither am I. If you're keen on getting more gold exposure I would hold off for now, as there's a very high chance that the Fed may increase interest rates in December, which will cause gold prices to drop further.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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