A Golden Hedge Is the Great Equalizer

Description

How can the well-balanced, savvy equity investor best leverage their investment in gold? Should they buy bullion, a gold ETF, or gold equities? Or is the answer to hedge against the market by investing in a high-volume, low-margin gold producer, knowing full well that potential high reward brings with it potential high risk?

Paradoxically, their equilibrium might be better maintained with the sound sleep they enjoy, secure in the knowledge that when everything else goes down the proverbial toilet, their gold stock should soar.

Detour Gold Corporation (TSX:DGC) is a low-grade gold producer with 32 million ounces of gold reserves at $1,000 per ounce. Detour Gold has a mine life of about 60 years at its current annual production level of 525,000 ounces. Further, Detour Gold has plenty of potential gold exploration opportunities in the area to expand low-cost open pit mining operations.

The present gold cut-off grade of 0.75 grams per tonne will be lowered if the price of gold appreciates, leading to more annual production, more reserves, a longer mine life, and, of course, more profits.

Detour Gold has an excellent cost basis in its revolving credit: $135 mllion at a rate of 1.75-2.75%. Detour Gold is located in the stable mining jurisdiction of northern Ontario. Therefore, it covers many of its costs in Canadian dollars, giving Detour Gold a competitive advantage over its American counterparts.

One drawback to Detour Gold is its exposure to Ontario electricity costs, which are higher than in any other North American jurisdiction.

Miners use plenty of electricity. **Hydro One** is currently planning to renovate the Darlington nuclear plant for an estimated cost between $12-15 billion dollars. It would be surprising if that amount doesn't double or even triple as it did during a similar project at the Bruce nuclear plant in the 90s. If this occurs, Ontario rates will increase even more than they are now anticipating. Currently, Ontario electricity prices are double what they are in Quebec.

If the general economy accelerates and GDP aligns with the 4-5% growth in the United States as

Trump administration predicts, gold prices will most likely deteriorate, and the equity price of a low-grade, high-volume company like Detour Gold would undoubtedly crater.

On the other hand, your gold hedge would only represent 5% or less of your portfolio, so a sharp decline in Detour Gold would probably be equalized or outstripped by the bulk of your equity portfolio. However, the gross-indebtedness of both the private and public sectors in the Western world will probably sustain sluggishness or worse in these economies such that quantitative easing will be too tempting to resist.

In this climate, based on $32 per share relative to $1,100-1,200 per gold ounce, with $1,500 gold or higher, Detour Gold could climb well over $100 per share, with a +100-year mine life even with gold production increasing annually.

Detour Gold Corporation could be your golden hedge.

CATEGORY

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