



Gold's Demise Is Exaggerated

Description

Trump's ascendancy to the top job south of border was supposed to be good for gold, but since he unveiled his expansionary economic policies, the yellow metal has been in terminal decline, giving back almost all of its post-Brexit gains.

In light of the optimistic outlook among analysts and economists for the U.S. economy, Wall Street has been racing to reduce its exposure to gold. Billionaire investor Stanley Druckenmiller dumped all of his gold on the night of the election. This was a contrarian bet given that a Trump win was touted as being good for gold.

Despite the optimism with which Trump's economic policies are viewed, the purported demise of gold appears overdone.

Now what?

Gold may be down by 11% from its post-Brexit 2016 high, but the optimism surrounding Trump's fiscal stimulus and U.S. economic growth is starting to appear way overdone. There are signs that many of his policies could be virtually impossible to enact in their entirety without causing significant political and economic damage.

Even the central tenets of his fiscal stimulus, a US\$1 trillion investment in infrastructure coupled with tax cuts, but no reduction in federal expenditures, will likely cause government debt to balloon to unmanageable levels. These policies, along with planned import tariffs, would lead to higher prices, causing inflation to rise to unmanageable levels, while strangling the very economic growth they are purported to promote.

A surge in inflation would force the Fed to boost interest rates, increasing borrowing costs and causing economic growth to slow.

Such circumstances would trigger considerable political and economic uncertainty, thereby supporting the price of gold.

Short-term fundamentals and market sentiment may be against gold, but with it pulling back sharply in recent weeks, now is the time for investors to hedge against uncertainty and add gold to their portfolios.

So what?

For many investors, the most obvious means of hedging against such a scenario is with a gold ETF, like the world's largest, **SPDR Gold Shares ETF** (NYSE:GLD). It is down by 4% over the last month, offering investors a handy entry point, while giving them access to a level of liquidity that is not available with physical bullion.

Nonetheless, a superior means of gaining exposure to gold is through precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW). Over the last month, it has plunged by 21%, making it attractively valued.

While in the past it has primarily focused on silver, Silver Wheaton now generates almost half of its revenue from gold. It should also be remembered that silver shares a closely correlated relationship with gold because of its status as a precious metal. Unlike a gold ETF, Silver Wheaton offers investors levered exposure to gold, which means that they will receive greater upside when gold recovers.

It is also a superior to gold miners, especially in an inflationary environment, because its lower levels of debt leave it is significantly less exposed to the risks associated with higher interest rates. Then there are its lower costs, because it has cash costs per ounce that are substantially less than any of the miners, it can earn higher margins for every ounce of gold sold.

These factors make now a compelling time to invest in Silver Wheaton to hedge against growing uncertainty and the potential of Trump triggering an economic or political crisis.

CATEGORY

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2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSEMKT:GLD (SPDR Gold Trust)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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