# How to Buy Gold: Bouillon vs. Companies

## Description

A common question that investors interested in holding a position in gold ask is, what is the best way to invest in gold? I'll be looking at some of the key considerations for investors looking to buy gold, either as a hedge or as an investment vehicle in today's bumpy economic environment. Here are three options to look at when exploring how to add a gold position to your portfolio.



**Option #1: buy a company with exposure to gold**

One of the easiest way to gain exposure to gold is to buy a mining company or a company with direct exposure to gold prices. Blue-chip Canadian mining stocks, such as **Goldcorp Inc.** (TSX:G)(NYSE:GG), with diversified mining operations and established and measurable production levels generally follow the spot price of gold quite closely. By buying into companies such as Goldcorp, investors have immediate exposure to gold prices, but they're exposed to the benefits and downfall of the operating company.

The risks of owning a single mining company are amplified by the operations of the business, meaning that an expected return over and above the fluctuating price of gold is to be expected. This increased volatility should be factored into any investment in a gold company, but considering 2016 was a positive year for gold prices (gold was up approximately 8% in 2016), investors have finally seen upside for stocks that have generally been on the decline since 2011.

**Option #2: Buy gold ETFs**

Exchange Traded Funds (ETFs) such as **SPDR Gold Trust (ETF)** (NYSE:GLD) are another way of betting on a continued rebound in gold prices in 2017. ETFs have grown substantially, with investors often preferring the low (sometimes marginal) management fees of ETFs to the comparably high management fees of hedge funds and other professionally managed funds.

Buying exposure to gold through ETFs will result in returns highly correlated to gold prices, and are thus viewed as a relatively safe and cheap way of buying gold compared with option #3.

**Option #3: Buy the real thing (bouillon)**

Buying physical gold bouillon is often considered to be the most traditional form of gold investing, one which is often touted by the “doomsday” pundits.

Buying physical gold achieves the desired result directly. Having access to physical gold can prove to be valuable should a given banking system fall apart or should a currency experience a massive devaluation and the corresponding inflationary environment makes traditional cash or other securities less “secure.”

This method of gold investing has its faults, namely that (1) while gold is a store of value, it does not have an economic output or production capability, as does a traditional stock; and (2) gold has storage costs associated with it. The first point is clear: by investing in an asset or a company that produces an economic output, should the company continue to grow, returns should (in theory) outpace inflation.

In the absence of the market tanking, generally the price of gold will fluctuate upwards with inflation, which makes sense. As the prices of goods increase across the board, so too does the price of gold. Holding gold requires storage, however, and storage is not free. Holding gold is thus viewed as an inflation-protected liquid asset with a negative dividend (storage costs). These costs should be considered before investing in physical gold.



Stay Foolish, my friends.

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