



Why Shares of Goldcorp Inc. May Just Continue to Rock

Description

Since the U.S. presidential election, the big news has been financials and industrial stocks. Although both sectors have performed well, gold has been overlooked by many, yet the precious metal has also performed exceedingly well.

What is often overlooked by investors is the performance of gold stocks in comparison to the metal itself. Typically, gold stocks will outperform on the upswing while underperforming on the downside. In bear markets, the loss in value of the metal is much more contained, whereas the euphoria surrounding the securities which went much further up must move down much more to correct accordingly.

Just last week, **Goldcorp Inc.** (TSX:G)(NYSE:GG) reported earnings, and the stock continued to climb higher. What traded only a few short months ago for less than \$16 per share is now priced at almost \$23. Investors who got in on the ground floor could potentially receive returns in excess of 40% in a very short period of time. The bad news for those who did not buy shares leading into earnings is, the easy money has been made. The good news is, there may still be a lot of potential in this security.

Looking at the company financials, Goldcorp boasts a strong balance sheet with only \$2.5 billion in debt and an excess of \$13 billion in shareholders' equity. With tangible book value of approximately \$15.70 per share, the share price is backed by real value.

Gold is known as the investment of choice in tumultuous times; investors purchasing shares at the current value may be doing so as a hedge against bad news, or they may be very optimistic that bad things will happen. Either way, there may be large gains to be had.

Looking at the technical indicators of Goldcorp, the bottom was clearly formed approximately three months ago once the 10-day simple moving average (SMA) was broken through. The way SMAs can be read is by looking at the share price, which leads the SMA. Assuming a stock declines in value from \$20 to \$10 and trades sideways for 10 days, it will take the 10-day SMA 10 days to catch up with the share price. SMAs are similar to having a tail. The more days that are included in the SMA, the longer the tail.

In the case of Goldcorp, the stock price has been performing well; the shares have moved from under the 10-day, 50-day, and 200-day SMAs to above these moving averages. Clearly, the bulls are running!

When purchasing stock in any mining company, it is important to understand the revenues and profits are driven by the price of the underlying metal being mined. In this case, an increase in gold prices will lead to a higher stock price as the company's tangible book value will also increase in value.

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Author

ryangoldsman

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