



Canadian Investors: Is Gold or Bitcoin the Better Choice?

Description

It's been a good year for Bitcoin.

The mysterious alternative currency has risen in value from under US\$419 a year ago to US\$1,219 today — good enough for an annual gain of 190%. This makes the cryptocurrency one of the best-performing asset classes in the world during that period.

Bitcoin bulls point to a number of factors they think will keep prices high. In an era when central banks seem very okay with printing money — or, as they creatively call it, creating liquidity — Bitcoin is the exact opposite. It isn't controlled by a central bank. And the supply is tightly controlled.

Compare that to gold, which has traditionally been the world's alternate currency. Although the yellow metal has rallied smartly thus far in 2017, it's pretty much been flat over the last year.

The world is also collectively mining more gold. The total worldwide production in 2016 is expected to be about 3,100 metric tonnes. That compares to 2,470 tonnes in 2005 and a low of 2,280 tonnes in 2008.

Which safe haven should Canadian investors choose? Let's take a closer look.

Bitcoin

Depending on your perspective, Bitcoin's purely digital existence is either a good thing or a bad thing.

It sure is much easier to store a digital currency, that's for sure. Secure Bitcoin storage services have popped up, promising to keep your store of Bitcoins safe — for a small fee, naturally. There are also Bitcoin ATMs that give an owner an easy way to convert their investment to cash.

But it isn't all good. Several Bitcoin storage websites have been rocked with scandals over the years. A bank has to answer to tough regulators. There's no such oversight for the people who keep Bitcoins safe.

It's also harder for investors to buy Bitcoins versus other assets. Buying a gold investment from any brokerage account is as easy as a few mouse clicks. There is no way for an investor to do the same thing with Bitcoins, although that looks like it will be changing. It appears the SEC is close to approving a Bitcoin ETF, which is one reason why the cryptocurrency has done so well lately.

Gold

Gold has one huge advantage over Bitcoin: operating leverage.

The average gold mining stock isn't just exposure to the commodity's price. It's a leveraged play on the price of gold.

Say a gold miner has an all-in sustaining cost (perhaps the key measure of the sector) of US\$900 per ounce of gold mined. At US\$1,100 per ounce, the miner is making enough money to do relatively well. If the commodity moves to US\$1,300 per ounce, profit doubles with zero extra work. Any subsequent moves higher are gravy.

It's hard for investors to find that kind of leverage when buying Bitcoin, unless they borrow to do so. That is not a good idea for obvious reasons.

Operating leverage can be incredibly lucrative for gold investors. Take **Kinross Gold Corporation** ([TSX:K](#))([NYSE:KGC](#)) as an example. Between January 1 and February 8, shares rallied 31%, although they've given some of those gains back since. Virtually all of that move was because gold rallied.

While Kinross does have some geopolitical risk — it has two mines in Russia — it is positioned to do well as the price of gold continues to increase. Management projects the company's all-in sustaining cost will be between US\$925 and US\$1,025 per ounce in 2017, which means even a small increase in the price of gold will be beneficial.

The bottom line

Ultimately, investors have to remember both Bitcoins and gold are speculative investments. After all, neither pay dividends.

Gold is relatively depressed today, while Bitcoin is red hot. It's for that reason alone that I'd be more inclined to buy gold. The commodity's huge operating leverage is just icing on the cake.

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