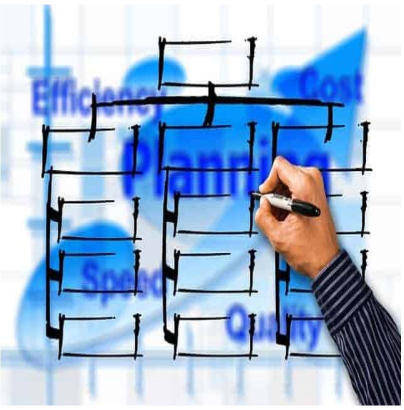

Considering Commodities Over Securities

Description

When considering investing in stocks vs. investing in commodities, the preference for many investors has traditionally been to invest in stocks first and commodities second.

Although many companies that produce commodities are traded on the stock exchange, which allows investors to purchase shares and benefit from what is mined profitably, most investors still avoid these names.

For investors now considering this type of investment for the first time, it is important to understand the sector from a very high level.

We'll use a lemonade stand as an example of a traditional business. The owner of the stand has the opportunity to mix their own juice, market the product, and differentiate their offering by a number of factors, such as service or price. Consumers and investors alike understand how traditional businesses operate. There is typically some element of pricing power.

If we look at commodity companies or mining companies from a high-level perspective, there is actually very little element of pricing power. The companies own the right to mine what is in the ground and sell the resource according to the supply-and-demand factors in play.

For gold company, it is almost impossible to market the product as higher quality or to provide better service that could command a higher price. The buyer pays for the metal according to the quality of the metal. That's all.

Given that many investors have held at least some resource stocks over the past year, there have been large losses across the board.

Goldcorp Inc. (TSX:G)(NYSE:GG) shares have declined by more than 35% over the past 52 weeks and by almost 60% over the past five years. It is interesting to note that gold has been almost flat for the year. Investors have lost patience and sold out of many gold and resource companies.

Given the large decline in the share price, the opportunity now lies with new investors seek to purchase an asset that has the potential for a sustainable increase in value.

Given that gold is a commodity which can be stored, the metal should trade in what is called “contango,” meaning that the price for delivery in the future will be higher than the price for a transaction today. The difference in price represents the time value of money in addition to the cost to store the metal.

Given the large pullback of shares of Goldcorp during a time when gold traded almost sideways for the past year, investors may want to stop and take note. Goldcorp is trading at approximately $16,. Investors will receive tangible book value per share of $15.88.

Investors may still have a lot of profit to reap from this investment!

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