The Case for Investing in Gold

Description

Gold is continuing its inexorable climb upwards to now be 10% for the year to date and close to breaking the psychologically important US$1,300 per ounce barrier. While stocks keep moving higher, recently hitting record highs (which is not typically considered to be a positive development for gold), the case for investing in the yellow metal is gaining considerable momentum. This makes now the time for investors to consider boosting their exposure to gold.

Now what?

Macro events are becoming increasingly favourable for gold. A weaker than expected U.S. dollar caused by the Fed flip-flopping over whether to hike interest rates due to weaker than expected inflation is good for gold.

Then there is rising geopolitical risk coupled with concerns that the Trump administration is incapable of implementing his pro-business policies. This is creating considerable unease among investors, making gold an important hedge against these risks and the rising uncertainty.

Finally, there are fears that equities are overvalued**,** which means now could be the time for investors to diversify their holding by increasing their exposure to gold.

One of the best means of doing so is to invest in gold miners. Not only do they provide levered exposure to the yellow metal, maximizing the potential returns available, but they remain attractively priced, even after rallying during recent months.

Furthermore, the prolonged slump in gold forced many miners to rationalise their operations and significantly reduce costs. This means that as gold rises their margins will expand significantly, making them more profitable than they were previously.

While the senior miners such as **Goldcorp Inc.** and **Barrick Gold Corp.** are considered by many pundits to be among the best means of playing higher gold prices, it is the smaller intermediate miners that can provide the best trade-off between risk and return.

Mid-tier gold miner **Kirkland Lake Gold Ltd.** (TSX:KL) announced some impressive second quarter 2017 results on Wednesday. Those results included a remarkable 84% year-over-year increase in free cash flow, while EBITDA was triple what it had been a year earlier. It wasn't only higher gold prices that allowed Kirkland to realize such an impressive performance. Lower costs, including a 26% year over year decrease in all-in sustaining costs, higher production and superior ore grades also contributed.

As a result, Kirkland increased its full year production guidance rose by 3.5% to now see the miner expecting total 2017 gold output to be up to 590,000 ounces.

Unlike gold bullion, Kirkland rewards investors with a regular income stream in the form of a sustainable quarterly dividend which was initiated in March of this year and yields 0.30%.

So what?

The progressively positive outlook for gold makes now the time for investors to bolster their exposure to the yellow metal so as to take advantage of higher price and weather-proof their portfolio against any downturn in equities. For the reasons discussed Kirkland remains one of the best means of doing so with it poised to appreciate further as gold rises.

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