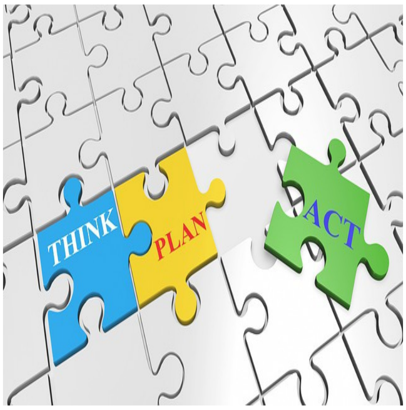

What Is the Best Way for Investors to Prepare for War?

Description

Tensions between the North Korean regime of Kim Jong-un and President Trump's administration have hit an all-time high; the North Korean government is threatening to launch missiles at the U.S. Pacific territory of Guam. Combined with Trump's heated response, in which he threatened the increasingly isolated dictatorship with "fire and fury," this has lifted the likelihood of armed conflict breaking out on the Korean peninsula.

Such a conflict would be devastating for all participants and cause a significant loss of life among combatants and civilians alike. The stance taken by Russia and China**,** which both see North Korea as a means of offsetting U.S. power and influence in the region, is not helping to calm matters.

Now what?

While outright war is unlikely, particularly with Kim Jong-un recently delaying a decision to fire mid-range missiles to land near Guam**,** it is clear that tensions will continue for some time. That should give investors pause for thought as to how to best protect their portfolios from this geopolitical risk and the potential for conflict to erupt in North Asia.

This is especially the case because in recent months, U.S. stocks keep hitting record highs, spurred on by better-than-expected corporate earnings and predictions of stronger economic growth.

Any conflict, particularly one involving a U.S. preemptive strike on North Korea, would disrupt the economy and have at least a sharp short-term impact on financial markets. When coupled with such lofty valuations, it means that a pullback among stocks is likely.

However, this should not deter investors from their long-term investment goals. The one thing that is clearly observable from equity markets over the long term is that they trend upward. This, according to famed investor Warren Buffett, occurs because of growing productivity and innovation, which allows the economy to keep expanding.

While trying to time the market usually eventuates in losses**,** it is prudent for investors to bulk up their cash holdings. This will leave them capable of making opportunistic buys when equities fall because of any further spike in geopolitical tensions.

Another conspicuous means of weather-proofing an investment portfolio against growing risk and uncertainty is to invest in gold. Famed hedge fund manager Ray Dalio recently recommend the lustrous yellow metal because of rising North Korea risk**,** stating that exposure should represent roughly 10% of the portfolio. For many investors, any investment in gold equates to buying bullion or investing in a gold ETF — the largest being the **SPDR Gold Trust** (NYSE:GLD).

Nevertheless, it is the gold miners that offer a superior means of investing in gold because of their leveraged exposure to the yellow metal. That means that as the price of gold rises, their stock prices increase at a greater rate than either bullion or an ETF.

One of the best means of gaining this type of exposure with significantly less risk than a miner is by investing in precious metals streamer **Osisko Gold Royalties Ltd.** (TSX:OR)(NYSE:OR). For the year to date, it is up by 29% compared to 11% for bullion and 10% for the SPDR Gold Trust. During July 2017, it completed a game-changing $653 million acquisition of 74 streaming and royalty agreements from Orion Mining Finance, which, over time, will give earnings a healthy bump.

Osisko Gold Royalties also reported some impressive second-quarter results, including a 12% year-over-year increase in gold production to record 10,863 ounces. Along with completing the Orion deal, that allowed it to reward investors with a massive 25% dividend hike; the dividend now yields 1.2%.

So what?

While the likelihood of outright conflict or nuclear war is indeed slim, tensions will continue to fester on the Korean Peninsula for some time. This will bolster the price of gold, making now an opportune time to invest in Osisko Gold Royalties to obtain levered exposure to the precious metal with far less risk than gold miners.

CATEGORY

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