



Gold Continues to Rally: Time to Add Miners to the Portfolio?

Description

A sharp rise in the price of gold over the past month caught many pundits by surprise, and investors are wondering if more gains are on the way.

Let's take a look at the current situation to see if this is the right time to buy [gold stocks](#).

Strong move

Gold is up \$90 in the past month, rising from US\$1,239 to US\$1,329 per ounce.

On the surface, the rally is a bit of a surprise, given the outlook for interest rate increases in the United States and the absence of fear in the market.

Rising interest rates tend to be negative for gold, as they increase the opportunity cost of holding the yellow metal, which doesn't provide any yield. Higher rates can also put a tailwind behind the U.S. dollar, in which gold is priced, although that has not been the case in the past year.

In fact, the U.S. dollar index, which measures the value of the American dollar against a group of key currencies, just hit its lowest level since September.

As the dollar weakens, holders of foreign currencies often take advantage of the situation to buy gold.

On the fear side, the recent decision by North Korea to join the Olympics initially hit gold prices, as safe-haven buyers exited positions based on geopolitical fears. The dip, however, didn't last.

So, why is gold rising?

Weaker inflationary pressures in the United States could be forcing analysts to question the assumption the U.S. Fed will raise interest rates three times in 2018. If the market starts to price in two moves or less, gold could extend its rally.

Another theory links the gold surge to the pullback in cryptocurrencies. Some pundits say funds that went into the digital currencies in Q4 2017 are now finding their way back to gold, as fears increase

about a potential cryptocurrency crash.

Which stocks should you buy?

Gold stocks have moved higher, but not at the pace one would expect given the surge in gold prices, so there might be an opportunity to make a [contrarian bet](#) and add some miners to the portfolio.

One stock to consider is **Goldcorp Inc.** (TSX:G)(NYSE:GG).

The company is working its way through a turnaround program and appears to be on the right track.

Management is targeting a 20% increase in both reserves and production over the next five years, while all-in sustaining costs are expected to fall by the same amount.

If gold continues to recover, Goldcorp should see strong improvements in margins and cash flow.

At the time of writing, Goldcorp trades at \$17.40 per share. Last February, the stock was at \$23 when gold traded for close to US\$1,240 per ounce, so there could be some upside in the near term.

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