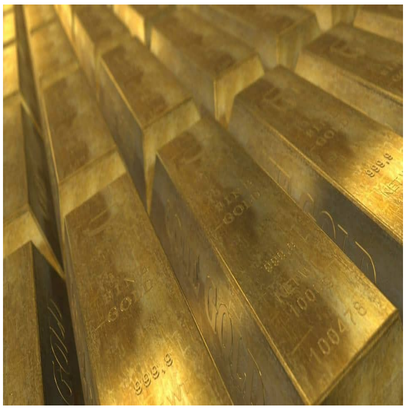

Could Gold Stocks Be the Big Story in 2018?

Description

The rally in the price of gold from early December 2017 through the first half of January this year has investors wondering if the beleaguered mining sector might finally break out of its slump.

Let's take a look at the current situation to see if gold miners should be in your portfolio.

Surprise surge

Rising interest rates and a lack of global economic unrest are often negative for the price of gold, but that hasn't been the case in the past two months. In fact, gold's rise from US$1,240 in December to the recent high of US$1,340 per ounce really caught some bears off guard.

The normal line of thinking is that higher rates increase the opportunity cost of owning non-yielding assets such as gold. As a result, funds can flow out of the precious metal and into fixed-income alternatives that provide a return.

In addition, higher rates in the United States can boost demand for the American dollar, and that sometimes puts a tailwind behind the greenback. In 2017, however, the U.S. dollar actually lost ground against a basket of key currencies, despite three rate hikes by the Federal Reserve.

If the recent downtrend in the dollar continues through 2018, gold could extend its gains.

What about the fear trade?

Save-haven buying can give gold a boost, as we briefly saw last year when the North Korea situation was hitting the headlines on a regular basis. The market, however, has grown more resistant to geopolitical shocks in recent years, and investors should be careful chasing gold moves caused by non-economic events.

Good news connected to geopolitical hotspots often sends gold tumbling, but an interesting thing occurred when North Korea announced plans to attend the winter Olympics. Gold initially fell, but it quickly bounced back.

A cryptocurrency theory

Rates are rising, and the fear trade has little momentum, so why is gold doing so well?

One theory links the move to a shift of funds out of cryptocurrencies.

The volatile moves in recent weeks by the top cryptocurrencies might be causing a boost in demand for gold, especially in Asia, where threats of crackdowns on the digital currencies are triggering massive daily price moves.

Should you buy?

You have to be a gold bull to own any of the miners. If you fall in that camp, it might be worthwhile to start a position in the sector.

One stock to consider is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX). Barrick is the world's largest producer and has one of the lowest-cost structures in the industry.

As gold prices rise, the impact on cash flow could be significant.

For example, Barrick produced more than five million ounces of gold in 2017. With the US$100 rise in the price we saw in the past month, that would generate an additional US$500 million if the gains hold up through the year.

The miners have moved off their lows, but they still trade below where they did last year when gold was much weaker, so there could be more upside on the way.

If you are not a gold bull, there are other attractive opportunities out there that could take off in 2018 and beyond.

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