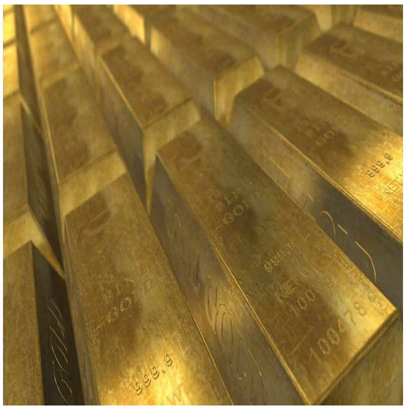

Contrarian Investors: Should Gold Stocks Be on Your Buy List?

Description

Contrarian investors are always searching for unloved stocks that could be on the verge of a recovery.

Let's take a look at the situation in the gold market to see if the miners might be interesting picks right now.

Gold rally

Gold rallied from US$1,140 per ounce in December to above US$1,360 near the end of January. However, it has since pulled back and currently trades near US$1,325 per ounce.

The surge off the December low likely came as a surprise to many gold bears given the expected continuation of interest rate hikes in the United States. Higher rates tend to be a negative for gold, as they increase the opportunity cost of owning the yellow metal.

How?

When rates go up, the return an investor can get from a fixed-income alternative normally increases that can trigger a shift of funds out of gold, which doesn't provide any yield.

Pundits are looking for the U.S. Federal Reserve to increase rates three times in 2018. Any indication that the Fed might be more aggressive would likely be negative for gold in the coming months.

On the bull side, investors are starting to buy gold as an inflation hedge amid concerns that the Trump administration's policies could overheat the U.S. economy.

Another theory around gold's recent strength is connected to the pullback in cryptocurrenncies. Some people believe that money might be exiting the cryptocurrency market and moving back into gold.

Finally, fears about a potential global trade war are providing some support for gold.

Will gold go higher?

Additional volatility should be expected as the tug-of-war between rising rates and inflation fears continues to play out.

Recently announced tariffs by the U.S. on steel and aluminum are fueling trade war fears, but investors should be wary. The U.S. is in the middle of NAFTA negotiations with Canada and Mexico, and the move might just be part of the negotiating tactics.

Which stocks are attractive?

If you are a gold bull, the miners look somewhat oversold right now, and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) might just be a name to consider. The company has made good progress on its turnaround efforts and that trend continues. Debt is down significantly and the company even raised its dividend last year.

At the time of writing, the stock trades at $15 per share. A year ago, investors paid $24 per share when gold traded for US$100 per ounce less than it does today.

Should you buy?

Rising interest rates are a strong headwind for gold, so I wouldn't back up the truck. However, some gold exposure is often recommended for a balanced portfolio, and the gold miners appear to be attractively priced right now. If you're looking to start a small position, this might be a good time to buy.

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