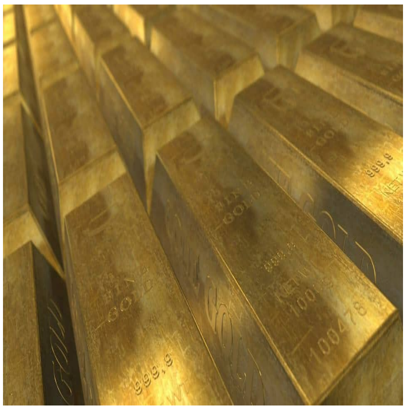

Gold Is Quietly Regaining its Lustre

Description

The markets plunged last week, and investors were flocking to hedge against a market downturn. In times of uncertainty, gold is a proven safe haven for investors. This makes sense, as gold and market crashes are negatively correlated. Need proof? From May 10, 2011, to October 3, 2011, the S&P lost 19% of its value, while gold gained 9.4%. During the last financial crisis, the S&P lost 56.8% of its value. Gold rose 25.5% over the same time frame. The pattern repeats itself over the course of history.

It is highly improbable that gold will experience a meteoric rise beyond its peak of 2011, but it has been slowly regaining its lustre. The broader market has been solidly in the red for the majority of the year, and the S&P is down 3.19% year to date (YTD). Gold is handily beating the market, up 2.16% YTD, and it ended the week up 3.3%, the best one-week performance since April 2016. As part of a broader diversification strategy, gold belongs in your portfolio.

My preference is for streaming gold companies that don't have the same capital requirements and operational costs of traditional gold producers. One of my favourites is **Franco Nevada Corp.** (TSX:FNV)(NYSE:FNV), Canada's only remaining dividend aristocrat gold company. Since gold's free fall in 2011, Franco Nevada continued to reward income investors with a growing dividend. The company has an impressive 10-year dividend-growth streak and is poised to raise dividends again this coming May.

The company is currently trading at $89.11, well below its 52-week high of $110.18. Franco Nevada is a consistent performer, having beat analysts' estimates in each of the last four quarters. In recent years, the company has begun to diversify, and it now has a stake in 61 oil and gas projects currently in production. Despite this, the company is still very much a mineral-streaming company and expects to generate 80% of its revenues from precious metals over the long term.

The other well-managed gold streamer is **Royal Gold, Inc.** (NASDAQ:RGLD). In 2016, Royal Gold delisted from the TSX, as the company felt that the low trading volume of its shares did not justify the additional costs of associated with a dual listing. The company is a cash flow machine and is a U.S. dividend champion, having raised dividends for 17 consecutive years.

Royal Gold is also trading at a discount to its 52-week high and at a very respectable price-to-earnings-to-growth ratio of 1.52. The company has a well-diversified portfolio with interests in 39 operating mines and a further 23 currently in development. Its gross margins of 80% are second to none, and it expects to grow cash flow and reduce debt in 2018.

Use gold as a hedge against a trade war

The markets don't like uncertainty, and Trump's protectionism trade policies have us on the brink of a trade war. There is a strong possibility that Trump will reverse course and tone down the rhetoric, as he did with NAFTA, but until then, investors should hedge their portfolios. Streamers are the most attractive, as they are well positioned to take advantage of the rising price of gold and aren't saddled with the burden of high costs in the event that the markets settle.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

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1. Editor's Choice

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2. NYSE:FNV (Franco-Nevada)
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