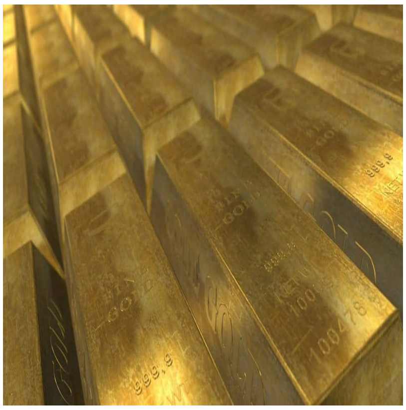

Are Gold Stocks Too Cheap to Ignore?

Description

Gold is back above US$1,350 per ounce, yet many of the producers continue to linger near their 12-month lows.

Let’s take a look at the current situation to see whether this is the right time to add the miners to your portfolio.

Fear trade

Gold recently surged from US$1,310 to US$1,355 on fears that a global trade war is about to erupt.

What’s going on?

U.S. President Donald Trump is threatening to slap US$50-60 billion in tariffs on Chinese goods. The announcement came on March 22, when the president signed a memorandum giving U.S. trade officials two weeks to compile a list of Chinese products to target.

Trump has often said that he thinks China doesn’t trade fairly, and the move is an indication that he might actually be prepared to trigger a trade war.

Where things go from here is anyone’s guess, but investors are clearly nervous, and volatility continues to be the norm for the markets in 2018. The **Dow Jones Industrial Average** initially slipped nearly 1000 points in two days before recovering 2/3 of the losses on March 26.

When investors get scared, they tend to shift money into safe-haven assets such as gold. The surge in recent days took bullion prices up to recent highs, and any strong retaliatory announcement by China could spark another big move to the upside.

Downside risks

Rising interest rates can be a headwind for gold, and most analysts expect the U.S. Federal Reserve to raise rates three times in 2018. As interest rates increase, the opportunity cost of owning nonyielding assets such as gold also rises due to the higher return investors can get by putting their money in fixed-income alternatives.

In addition, investors should be cautious when gold rises on the fear trade, as the move is often a short-lived event. We have seen this with the North Korea situation over the past 12 months, and the trade war hype might well turn out the same way. If the media attention shifts or President Trump indicates that he is not really serious, gold could quickly give back the recent gains.

Should you buy?

Regardless of whether or not you think a trade war is in the works, gold stock looks cheap, and this might be a good time to add some exposure to the portfolio.

For example, **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) currently trades at $16.50 per share. A year ago, it was above $26, yet gold was actually US$100 per ounce lower than it is today.

Barrick has made good progress on its efforts to reduce debt, and that trend continues. In fact, the company expects to exit 2018 with long-term debt of US$5 billion. That's down from US$13 billion at the beginning of 2016.

Production is decreasing due to non-core asset sales as the company focuses on its highest-return properties, but Barrick remains a gold-mining giant, with anticipated 2018 output of 4.5-5 million ounces. Every US$100 per ounce increase in the price of the yellow metal adds as much as US$500 million to the coffers.

If you have a bit of cash sitting on the sidelines and are looking for gold exposure, Barrick deserves to be on your radar.

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Date

2025/08/21
Date Created
2018/03/29
Author
aswalker