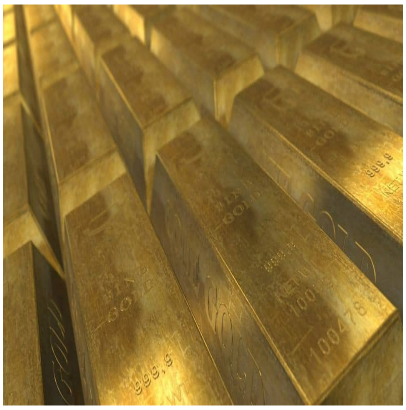

Are Gold Stocks Safe Bets to Outperform the TSX?

Description

As the TSX continues to struggle this year, investors are left looking for safe options to invest in. However, many industries have been hit hard and have seen significant sell-offs happen in just the first three months of the year.

There are many factors that could be blamed for the turmoil, and that makes it all the more difficult to predict when we might see the markets stabilize. We saw the TSX dip below $15,000 back in February, and after a modest recovery it's back down again.

Gold stocks normally are associated with long-term stability because of the strength of gold prices. Although I didn't find proof that gold rises during times of crisis and instability, I'll compare the returns of some of the large gold stocks in Canada and see how their performances stack up to those of the TSX.

The benchmark

For starters, let's have a look to see how the TSX has performed recently as well as over the long term. In the past year, the index has been down more than 2%, but over the past five it has grown 23% for a compounded annual growth rate (CAGR) of 4.2%.

A good gauge of the market's strength is by looking at how it performs even in the worst of times, specifically, the collapse in the markets that took place in 2008-2009. Although the TSX did go off a steep cliff then, since the start of 2008 it has risen 15%, equating to a CAGR of just 1.5% over the past 10 years.

How gold stocks have done

In the other corner are gold stocks. Lt's take a look at three in particular to compare their performances against the TSX.

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) has seen a tremendous decline in the past year with the stock diving more than 35% in the past 12 months. **Goldcorp Inc.** (TSX:G)(NYSE:GG) has declined as well, but it has only seen a drop of 9% during that time. Meanwhile, **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) has performed the best of the three gold stocks with returns of more than 7% in the last year.

If we stretch this interval to the past five years, their performances only get worse: Barrick is down 39%, although Goldcorp has crashed more than 43%, and Kinross has seen significant sell-offs as well, with its stock price dropping more than 28% in value.

Finally, let's take a look at how the stocks have done in the past 10 years. In this instance, Kinross has performed the worst with its stock falling nearly 75%, Barrick has declined 64%, and Goldcorp has seen its share price get cut in half during the past decade.

Bottom line

The results are surprising, and although it's not a big sample, it's a decisive win for the TSX over the three gold stocks listed here. If you had held any of these gold stocks over the past decade, you would have lost dearly. And while the TSX may have averaged mediocre returns during that time, mirroring the market would have kept you out of the red.

While there are many factors that impact any one stock, this should offer investors a sobering reminder not to assume that gold stocks are safer or better investments than what you could earn by trying to mirror the market.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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2. NYSE:KGC (Kinross Gold Corporation)
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