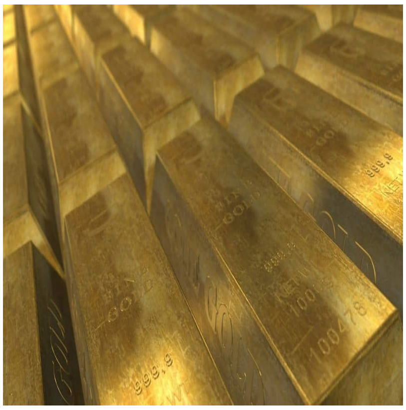

Looking for a Hedge Against Uncertainty? Consider These 2 Gold Companies Today

Description

Uncertainty abounds in recent weeks. One moment it seems all is right with the world, and the next moment the earth is about to erupt into chaos. Combine that with rates that are rising and some semblance of inflation, and it could be just about time to add a little gold to your portfolio.

Gold, being the traditional safe haven in times of uncertainty, has been pretty stagnant over the past few years. Stocks keep going up, and gold seems to just tread water, remaining range-bound between US$1,100 and US$1,350. Is this a good time to add some gold companies to your portfolio, or are they just a significant waste of money?

Because gold has been in the doldrums for an extended period of time, these resource companies are at a level of significant value. Some are at or near 52-week lows. Interestingly, these companies are often also making money with extremely low debt levels.

Argonaut Gold Inc. (TSX:AR)

Argonaut operates three mines and has two more under development. The three operational mines are in Mexico, and one of the two under development is a Mexican mine and the other is in Ontario. The mines provide a degree of diversification, especially when the Canadian mine comes online. The mines are 100% owned, giving Argonaut full operational control and profit retention.

Argonaut gold has twice as much cash as it has debt. The company has zero short-term debt and a very manageable amount of long-term debt. Given that this has already been a difficult time for gold companies, its exceptional balance sheet should provide share price stability. The company trades at about half of its book value, which may mean exceptional upside if gold were to turn around.

The biggest disadvantage to owning Argonaut Gold is its lack of a dividend. I suppose the good news about a lack of dividend is that the company hasn't had to cut it and can reinvest its cash back into operations. However, the downside is pretty low if you take a small position in the company as a value-based speculative trade.

Caledonia Mining Corp. (TSX:CAL)(NYSE:CMCL)

Caledonia is a small company that operates the Blanket mine in Zimbabwe, Africa. One of the more interesting facts about this mine is that Caledonia is an indigenized gold company, since it is primarily owned and operated by Zimbabwe nationals. Caledonia has a 49% ownership stake in the mine.

Even after a substantial run up, the stock is up significantly year to date; the company is only trading at a P/E multiple of just under 10. Combine that with the fact the company has no net debt and positive free cash flow, and Caledonia starts to look pretty interesting.

Aside from the cheapness of the stock, the company also pays a dividend of around 3.5% at current prices. This is not a utility, though, and I would never swear by the stability of resource company's dividends. However, the company's payout ratio has been dropping to around 30% of earnings as profitability has increased, so it seems to be secure at present.

The biggest caveat to owning this company has to do with its lack of diversification. Caledonia operates primarily in Zimbabwe, Africa, so there is potential for operational risk. While everything is stable at present, there is no way of knowing if there may be an issue in the future. This company, while profitable, is not terribly diversified, making this a relatively risky investment.

Bottom line

To be clear, these are not low-risk investments. These are speculative plays on gold, with Argonaut providing more diversification and Caledonia providing a dividend. I wouldn't dump my retirement savings into these companies, but the companies may be worth a look as a leveraged play on gold in this time of economic and political uncertainty.

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2. Metals and Mining Stocks

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