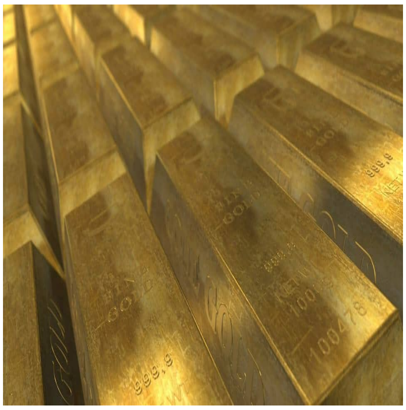

When Should You Invest in Gold Stocks?

Description

Gold miners have long held a very unique status among investors. First, there's the long-held belief that gold is a safe store of wealth that will only appreciate in value over time owing to its scarcity and high demand. Then there are the efforts by gold miners over the past few years to become increasingly more efficient, which, by extension, results in higher margins and better returns.

But does that theory still stand true? In 2011, we witnessed the epic collapse of gold prices from near US$1,900 per ounce to multi-year lows of below US$1,100 per ounce. Arguably, it was those depressed prices that forced miners to pursue more efficient operations and cost-cutting measures.

There's also the cryptocurrency debacle that continues to tease crypto-investors, frustrate regulatory bodies, and confuse everyone else, and more recently, we have rising interest rates and even the ongoing war of words with Saudi Arabia to shake investors.

The good news is that despite that uncertainty, there's still a handful of promising precious metal investments worthy of consideration.

Barrick Gold (TSX:ABX)(NYSE:ABX) is the largest gold mining company on the planet and is an impressive option to add to any portfolio. Like many other precious metals miners, in the fallout of the 2011 pricing drop, Barrick was left with a staggering amount of debt that was near US$13 billion and a very inefficient process.

To counter that drop, Barrack engaged in a very aggressive cost-cutting/debt-reduction program nearly four years ago to begin the process of trimming that debt; it has proven incredibly successful. So far, Barrick has paid down over US$6 billion in debt and is on target to bring that down to US$5 billion by the end of the current fiscal year.

The final key point is Barrick's production. Last month, Barrick announced updated figures for the second fiscal quarter of 2018. Two of the key takeaways from the report was that copper production was down, and due to some delays in the Lumwana mine in Zambia, cost estimates and all-in sustaining costs witnessed a noticeable bump, which caused the stock to slide.

Barrick typically is the envy of the market in terms of efficiency, so this drop, albeit temporary, provides an ideal moment for prospective investors to pick up shares at a discount.

Yamana Gold (TSX:YRI)(NYSE:AUY) is another interesting pick for gold bugs. This week, the company announced that Daniel Racine was promoted to president and CEO of the company, with company founder and former CEO, Peter Marrone taking on a new as executive chairman.

In addition to the staffing changes, Yamana's recent report on the second fiscal quarter of 2018 showcased a noted improvement in several areas over the same period last year. Specifically, gold production saw an uptick of 1.4%, revenue saw a small increase by 0.7%, and, as a result, net income for the quarter came in at a respectable US$18 million, which was a significant improvement over the US$39.9 million loss reported in the same period last year.

All-in sustaining costs dropped to US$837 per ounce in the quarter, and production for both silver and copper beat expectations.

In short, there are several key points that put Yamana on the grid as a great precious metals investment. First, the company is becoming more efficient with each passing quarter. This is not only reflected in the all-in sustaining costs that continue to improve but in Yamana's bevy of low-cost mines that continue to ramp up production.

The second point relates to that ramp up in production. Some of Yamana's mines, such as Cerro Moro, are seeing increased production levels that are likely to continue for the foreseeable future. With a production guidance that is likely to beat estimates for 2018, and a significantly higher guidance set for 2019 that is also likely to be met or even surpassed, investors in Yamana should continue to see strong growth.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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