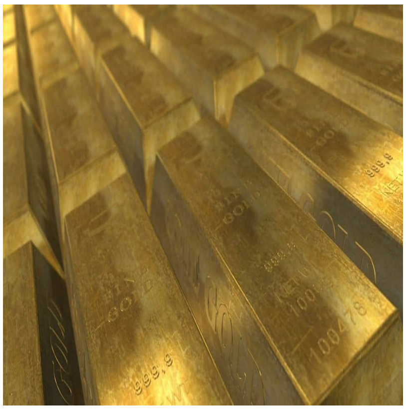

The Perfect Storm: Gold Stocks Rally in Down Market — Could This Be the Next Big Trade?

Description

While investing in gold stocks has pretty much been a losing proposition in the last five years and more, things are changing.

The market is clearly more skittish, with major market indexes seeing big selling pressure.

As I know you are well aware of, on October 9, the **S&P/TSX Composite** began a sell-off that spooked investors, leaving us wondering if this is the sell-off we have been waiting for and/or dreading. The TSX Index declined 3.4% in the next two days in a sharp sell-off. It is now 3.6% lower.

But what happened to gold and gold stocks?

Well, gold rallied to the tune of 3.7%.

As for gold stocks, they have been, as expected, the calm in the storm as investors have been gravitating toward safety.

Agnico Eagle Mines (TSX:AEM)(NYSE:AEM) stock has rallied 11.5% in this same short time period, **Kinross Gold** (TSX:K)(NYSE:KGC) stock has rallied 3.4%, and **Goldcorp** (TSX:G)(NYSE:GG) stock has rallied 8.6%.

What we have here is a bunch of factors coming together that are all positives for gold stocks, creating the perfect storm.

First, we have investor sentiment that has become decidedly more negative on the stock market, as we are seeing with the sharp drop in the TSX index. This is good for gold stocks and their safety appeal.

Second, we have gold prices that are starting to rally, as a consequence of a weakening stock market and increasing geopolitical risks, as investors look for safety.

And lastly, and on a company-specific level, we have an industry that has really worked hard at improving balance sheets, increasing efficiencies, lowering costs, and reducing risks.

Let’s look at three gold stocks I would consider adding to my portfolio.

Agnico Eagle is a high-quality gold producer with many positive features and a dividend yield of 1.2%. Historically, the company has been a consistent top performer, with solid operational performance and an industry-leading cost structure, which has driven consistently better-than-expected results.

At this point in time, Agnico Eagle is on the verge of starting production from two new mines, Ameruq and Meliadine, with estimates for production growth of 31% from 2017 to 2021, according to some analyst estimates. This puts the company at the top of the list among gold producers of its size for production growth.

On the risk side, Agnico Eagle has the lowest political risk profile of its peer group, with gold mines in politically safe areas such as northwestern Quebec, northern Mexico, Finland, and Nunavut, and exploration activities in Canada, Europe, Latin America, and the United States.

The $11.5 billion Goldcorp will see a significant production ramp-up out of its mine in northern Quebec and has a low-risk profile with regard to location of mines as well as debt levels.

With Kinross, we see that the stock rallied only marginally — probably a reflection of the company’s geopolitical risk profile, as the company’s assets bring a lot of geopolitical risk to the table, with significant production coming out of Russia and West Africa.

Elevated exploration activity means that Kinross could see a big bump in reserves, so that would be a potential catalyst for the stock.

In terms of financial results, we can expect to see more strength in Agnico Eagle stock and Goldcorp stock as they are due to report this week.

CATEGORY

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

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1. Editor's Choice

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