



Is This Junior Miner Offering Investors the Best Chance to Outperform Gold Markets?

Description

Gold mining companies have broadly outperformed stock markets since the beginning of the fourth quarter last year, as the price of gold bullion has now climbed above the \$1,300 per ounce threshold.

Shares of companies like **Goldcorp**, **Barrick**, **Yamana**, and the perhaps even lesser-known **Kirkland Lake Gold** have helped to lead the way, with shares in each of those gold producers posting gains at least in the double digits over the preceding couple of months.

Yet I have to wonder if it isn't junior miner **New Gold** ([TSX:NGD](#)) which may be the better option for investors looking for opportunities among gold stocks to [outperform the markets](#) in the coming weeks and months.

That's because while each of the aforementioned gold stocks have all experienced significant run ups in their share prices over the past couple of months, shares in New Gold still remain below where they traded at the close of last August.

For those interested in the merits of a [contrarian investment strategy](#) attempting to profit from the "law of averages," or otherwise known as "the reversion to the mean," they may be likewise interested to know that the NGD shares currently trade at a 30% discount to their reported book value following the sell-off that took place in the company's shares earlier this month.

Despite reporting Non-GAAP earnings per share of \$0.04 in the fourth quarter and beating analysts' estimates by \$0.04 per share in the process, shares in New Gold sold off -24% on the announcement of what investors viewed as disappointing forward guidance released by company management.

In reporting its earnings, management stated that New Gold expects to produce somewhere between 300,000 and 335,000 ounces of gold in 2019, falling (ever so slightly) short of analyst expectations for 336,000 ounces of gold production this year.

However, the bigger disappointment was that the company expects all-in sustaining costs for its Rainy

River mine to come in higher than anticipated in 2019 — an announcement that follows on the heels of an update last year that production guidance for Rainy River in 2019 would be 100,000 ounces short versus what it had previously reported at the beginning of the year.

Sell the rumour, buy the news

However, keep in mind that this is a company whose stock was trading as much as 35% higher per share on the TSX just prior to its latest earnings release.

This is a story that very much remains a long-term (and speculative) one, with the bulk of the company's mining assets remaining still undeveloped.

Meanwhile, if the price of gold were to continue on its most recent ascent, it could be that shareholders in New Gold end up as some of the largest beneficiaries of such a would-be development given the highly leveraged nature of a stake in such a small and largely undeveloped asset base.

Bottom line

As the old saying goes, "a rising tide lifts all boats."

If the price of gold mellows out in the coming weeks, or even declines, a stake in any of the aforementioned senior gold miners may prove to be the more prudent investment.

Yet if the price of gold continues heading in the same direction it appears to be going, shareholders in New Gold may expect their investment in this junior miner to perform very well indeed.

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