



## 2 Mining Stocks That Actually Deliver Huge Profits

### Description

Mining stocks are dangerous, but they can also make you rich. If you choose the right stock, you can double or triple your money in under a year. Choose the wrong stock and you can lose everything.

If you invest in mining stocks, understand that you're playing a high-risk, high-reward game. Fortunately, there are a few tricks that increase your odds of success. There's even a company on this list that is *significantly* less risky than the average mining stock.

If you want to invest in the best, here are your top two options.

### Stick with quality

Every mining company will tell you that their projects are high quality. One look at their long-term stock performance usually paints a different picture.

The truth is that the mining industry hasn't been that profitable over long stretches of time. There's a reason why Warren Buffett avoids capital intensive businesses like these.

Once in a while, however, you find a mining company that has everything you're looking for: low production costs, high-quality deposits, and a proven, well-incentivized management team. One of those companies is **Kirkland Lake Gold Ltd** (TSX:KL).

Pull up a multi-year stock chart of Kirkland Lake Gold and compare it to every other mining company you're thinking about investing in. The difference should be clear—this company knows how to make big money for shareholders.

Since 2015, the company's stock has increased in value by a whopping 3,100%, which would have turned a \$10,000 investment into more than \$300,000 in just four years. The **S&P/TSX Global Mining Index**, meanwhile, increased by roughly 50%, turning \$10,000 into just \$15,000.

What makes this company so special? First, its mines are in politically stable regions like Canada and

Australia which rarely experience production disruptions. Second, it can produce gold at industry-low prices.

Operating cash costs average roughly \$300 per ounce, meaning that Kirkland Lake can likely remain profitable no matter what the prevailing pricing environment.

Finally,, management has been able to grow production significantly without overspending. Production in 2015 totalled just 155,000 ounces. By 2018, output had grown to 720,000 ounces. This year should see another 30% rise.

When it comes to mining stocks, investors often try to thread the needle with complex bets. Instead, focus on great companies that consistently deliver on shareholder promises. Kirkland Lake Gold fits that description.

## How to reduce risk

If you're looking for the lowest-risk mining stock there is, **Wheaton Precious Metals Corp** ([TSX:WPM](#)) is a solid bet, as it actually doesn't operate any mines itself. Instead, it finances other mines, taking a cut of future production. Here's how it works.

**Vale SA** owns the largest copper deposit ever discovered in Brazil. It began production in 2012 with annual capacity of around 12 million tons. Early on, it was clear that the deposit was much larger than anticipated.

In order to capitalize, Vale completed a second phase of construction that doubled annual production.

Still, there was room for expansion. This was a riskier expansion, however, and Vale wanted to split the risk. That's how Wheaton ended up financing part of the new construction.

In return, Wheaton would receive 25% of the *gold* production. So far, this has been incredibly [lucrative](#) for Wheaton.

This mining strategy has huge advantages. First, Wheaton can invest in dozens of mines all over the world, diversifying its resource, operator, geography, and political risk. No traditional mining company can match that.

Second, it doesn't leave Wheaton on the hook for cost overruns. If construction is more expensive than anticipated, that's the responsibility of the mining partner, not Wheaton.

As you can imagine, Wheaton's stock price is significantly less volatile than most traditional mining stocks. The company has also outperformed its industry, as well as the market overall.

Since 2006, shares are up by 190% compared to a return of just 40% for the **S&P/TSX Composite Index**.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

1. NYSE:WPM (Wheaton Precious Metals Corp.)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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