Warning: These Gold Stocks May Be Due for a Pullback

Description

Gold investors finally have something to cheer about. After years of underwhelming performance, the price of bullion has finally caught a bid. Earlier this month, the precious metal broke through a key psychological barrier — the $1,400-per-oz mark.

Year to date, the price of gold is up approximately 14% and the TSX Gold Index has performed even better up 28% thus far in 2019. The industry was certainly starved for attention, and it is not surprising to see producers finally break through resistance.

Investors should be cautious, however, as many gold stocks are now in overbought territory. The 14-day relative strength index (RSI) is a key momentum indicator. An RSI above 70 is a sign the company is overbought and may be due for a short-term pullback.

As of end of day Friday, the TSX was littered with gold stocks with RSIs over 70. Of the 33 stocks on the list, 25 were precious metal companies. Clearly, the industry is benefiting from pent-up demand. There are, however, three stocks that appear to be at greater risk of a pullback than their peers. Why? All three have abnormally high 14-day RSIs.

If you are considering a position in either of these stocks, it may be best to wait for a pullback. At the very least, stagger your purchases.

Eldorado Gold

The most overbought stock on the TSX index is **Eldorado Gold** (TSX:ELD)(NYSE:EGO). The company has a 14-day RSI of 89.63, far above the average. After years of dismal performance, shareholders of the company finally have something to cheer about this year.

Year to date, Eldorado's stock has jumped 151% and is one of the best-performing stocks in the industry. In the last month alone, its stock price has jumped 41%. The producer is in a unique situation with no major projects on the book. Instead, it is focused on cost controls and generating significant cash flows.

Detour Gold

Next up, **Detour Gold** (TSX:DGC) has seen its 14-day RSI balloon to 84.82. Similar to Eldorado, recent buying activity has vaulted the company into one of the year's top-performing stocks. Up 69% thus far, Detour's share price is approaching levels not seen since 2016.

A northern Ontario pure play, Detour has undergone significant change at the top. In the past few months, it has appointed a new CEO and CFO. The change has been welcomed, as undisciplined operations have led to one of the highest costs in the industry. In 2019, all-in sustaining costs (AISC) are expected to average $1,194 per ounce. It's certainly not among industry leaders.

On the positive side, new management has targeted a 30% reduction in AISC to $843 per ounce by 2023.

First Majestic Silver

Rounding up the most overbought stocks on the TSX is **First Majestic Silver** (TSX:FR)(NYSE:AG). Although not a gold stock, silver stocks have also been a beneficiary of the recent uptick in buying activity. With an RSI of 83.65, First Majestic may also be due for a pullback.

Year to date, First Majestic has booked gains of 62%, half of which has come over the past month. At $12.95 per share, the company is trading at almost double the one-year analyst price target of $7.85 per share. At a price-to-book above four, revenue growth in the mid-teens and enterprise value (EV) to EBITDA of 45 (more than five times the industry average of 8.15), the stock seems to have gotten ahead of itself.

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Date
2025/08/13
Date Created
2019/07/22
Author
mlitalien