Buy Gold Before the Recession Hits

Description

At least in financial terms, we're in uncharted territory. Never before have central bank interest rates been so low for so long. Now, just as these rates were on a mild upswing, the world seems to be facing another slowdown in economic growth.

From China to Canada, estimates for gross domestic product expansion over the next few years have been revised downward. This increases the chances that central banks will have to cut their benchmark interest rates, despite their already modest levels. That could mean many countries will have to lower rates to zero or below.

Already, bonds with a negative yield are worth an estimated $13 trillion. Trillions more trade at a zero rate. This situation has created an asset bubble in everything from private startups to publicly listed industrial giants.

Ray Dalio, founder of hedge fund juggernaut Bridgewater Associates, says central banks have cut rates so much that they may have nowhere left to go. Meanwhile, this enormous debt load will eventually come due, and there won't be enough of assets in the world to cover these liabilities.

It's a disaster waiting to happen, and there seems to be only one way out — gold. Dalio, along with other investment legends like Paul Tudor Jones, have suggested that adding gold to a portfolio could help mitigate risks and retain value if or when the financial system falls apart.

Of course, investors can buy physical gold directly or invest indirectly through exchange-traded funds, but I find gold mining companies a better option. Fortunately, one of the largest gold mining firms in the world is listed in Toronto.

Barrick Gold's (TSX:ABX)(NYSE:GOLD) mining operations are spread across several countries, from Chile to Zambia. The company mined 4.5 million ounces of gold last year and currently has over 62.3 million ounces in estimated reserves.

As with any other mining company, Barrick's fortune is linked to the market price of its underlying commodity. Over the past two years, the price of a single ounce of gold has skyrocketed from below $1,200 to over $1,500. Meanwhile, Barrick's stock price has gone from $13 to $25 over the past one year alone.

Both are expected to outperform the bond and equity market if forecasts of a global recession are accurate. For reference, Barrick's stock price was up by over 50% between 2007 and 2009 as the global financial crisis played out. Meanwhile, the price of an ounce of gold was up 48% over that same period.

Bottom line

Predicting a recession is nearly impossible, but with global interest rates already at historic lows, $13 trillion in negative-yielding bonds outstanding and global economic growth slowing, it seems like a good time to seek out safe havens.

Gold and gold mining firms have done more than just retain value during the recent global financial crisis. In fact, Barrick Gold created value for investors even as the global stock market was falling apart. If you're worried about another recession in the near future, perhaps Barrick might be a convenient hedge.

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