Why Investing in Gold Might Not Be That Safe

Description

Gold has been on a serious rally lately. After years of trading below its last high price of around US$2,400 per ounce, the price of gold plummeted and remained relatively stagnant below the US$1,400 mark for years. Then, over the summer, things changed.

The price of gold is having quite the rebound as news that a recession will be hitting soon has come to investor ears. As of writing, the price is now about US$1,500 per ounce, with many analysts predicting it could keep rising higher and higher.

This has a lot of investors buying it up in bulk, especially as some analysts predict a price of US$3,000 by 2030.

Yet others are warning it might be a bit too soon, with much of this due to problems across the border. As analysts continue to create such a positive speculation for the price, gold could soon become overbought.

As this isn't likely to be the recession of 2009, this is a problem. Analysts believe there won't be the major dip like there was a decade ago, but rather a few slight dips that gives investors at least some time to prepare for a more significant dip that would mark a recession.

Should this happen, that means there could be a few rebounds in the markets, meaning that the price of gold could rise and fall as well, with investors witnessing something similar to what happened last December.

The trade war between China and the United States is a huge reason for the boom in gold prices. China and Russia have both been getting rid of U.S. dollars for gold lately, with gold reserves on track to reach 150 tons this year for China, and Russia adding about 96 tons.

This is a huge part of the recent gains we've been seeing over the last few months, and would have a strong effect on price.

Rather than looking to gold as the solution to your recession fears, it might be far better to have a small stake just for some diversification. If your plan is to hold onto these gold stocks for the long term, then you're surely to come out on top rather than hoping to break even as the markets go down and people start to panic.

If that's the case, consider **Barrick Gold Corp.** (TSX:ABX)(NYSE:GOLD) and **Franco-Nevada Corp.** (TSX:FNV)(NYSE:FNV). Each offers a huge portfolio that would allow investors a strong position in gold.

Barrick is the world's most profitable gold company, with five out of the 10 largest gold mines in the world. As gold prices have increased, so too have this company's profitability, with shares increasing almost 60% over the summer. This makes Barrick the gold stock to beat.

Much of this stems from the company's continued strong performance. While the company isn't currently profitable, its revenue growth seems to say that it's on track to get there soon.

When it does, profits from there should be steady and strong. Revenue in the last year grew 2.3% for Barrick, with 87% of shareholder returns for the last year as well.

As for Franco-Nevada, this company is great for investors looking beyond just mining as the company is also a streaming business. This means that it can fund mines and get a huge discount on the production.

It doesn't have the deal with the complexities of running a mine, yet reaps the benefits of growth from its miners and can use that cash to build and expand.

Franvo-Nevada has also seen a huge increase over the summer of about 35% with investors bullish on gold. And this is likely the best bet moving forward. It also has investments in oil and natural gas, so the company offers a diverse range of products that will pick up the slack should gold slump.

Meanwhile, Franco-Nevada continues to add on assets to grow its operations, which should be great for investors looking for major growth over the long term.

Foolish takeaway

The next recession is likely to not be so bad as the one of 2009, which could be a problem for investors thinking gold is a safe haven. If you want to get in on gold, I would highly recommend these two stocks, and likely at a smaller stake before trading in everything for gold stocks.

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