Forget Gold! When The World Falls Apart, I'd Buy Bargain Dividend Stocks

Description

The gold price has surged around 17% higher since the start of the year. This suggests that investors are becoming increasingly risk averse at a time when the risks facing the global economy have continued to rise.

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While buying gold miners could prove to be a sound investment strategy that delivers high long-term returns, buying the precious metal either in physical or ETF form may prove to be a short-sighted move. After all, world economic 'busts' have historically always been followed by economic 'booms'.

As such, now could be the right time to buy a range of undervalued stocks that offer dividend growth potential. This could lead to higher long-term returns, as well as a more appealing risk profile.

Gold appeal

Gold's appeal has increased not only due to investor fears surrounding the prospects for the world economy, but also because of expected decreases in US interest rates. They will make gold more appealing relative to interest-producing assets, while a decline in interest rates could weaken the US dollar and make gold more affordable in other currencies.

As such, it would be unsurprising for the gold price to move higher in the short run. Its status as a store of wealth could convince many investors who are unsure about the prospects for the global economy that focusing on defensive assets is highly appealing.

Stock market potential

While the gold price may move higher in the short run, long-term investors may be better off buying stocks that trade at low prices. The past performance of major indices such as the FTSE 100 and the S&P 500 show that stock markets have always recovered from periods of decline to post higher highs.

Although a recovery can sometimes take months, or even years, long-term investors could benefit from the opportunity which economic uncertainty presents to buy stocks while they trade at larger discounts to their intrinsic values than would normally be the case.

Buying dividend stocks could be a worthwhile means of generating positive cash flow to invest in other stocks while they trade at a low ebb.

Dividends may also allow investors to assess the financial strength of a business. For example, a company with a track record of robust dividend payments that are currently well-covered by profit may be seen as a defensive business that attracts investors during periods of economic uncertainty. As such, it could offer a degree of stability in the short run, as well as long-term growth potential.

A broad range of stocks

Buying stocks could, of course, include the purchase of gold miners. If they offer a wide margin of safety and have improving financial prospects, including them within a portfolio can be a sound move.

However, in terms of seeking to generate high returns over a sustained period of time, buying dividend stocks while they trade on low valuations due to economic instability appears to be a better idea than piling into physical gold or a gold ETF.

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