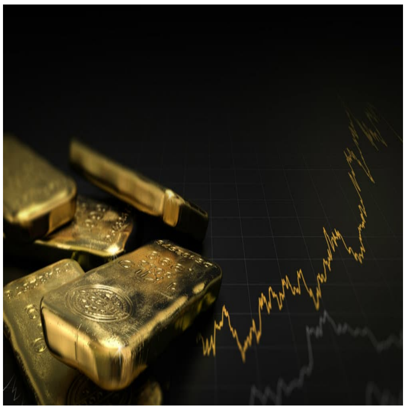

Why You Shouldn’t Invest in Gold Stocks in a Recession

Description

Many investors suggest gold as the number one defensive stock in the event of a recession. This is the last place you’d want to entrust your hard-earned savings.

Facts do not support the idea that gold stocks offer higher returns in a recession. Many gold stocks are low-dividend payers and experience significant downward price volatility in recessions.

There is no guarantee that by the end of the recession, the price will go back up. As for liquidity during the recession, forget about it. There are higher returns in Government Insured Certificates (GICs) and savings accounts then what you will get from gold stocks.

Luckily, many investment services are turning to zero-commissions and fees; but it is still less expensive and safer to put your money in a high-yield GIC. Your initial investment in a GIC is 100% protected, whereas your gold stock may decline in value without much in the way of dividends acting as compensation.

For example, take a look at these two popular gold stocks: **Kinross Gold** (TSX:K)(NYSE:KGC) and **Barrick Gold** (TSX:ABX)(NYSE:GOLD).

Kinross Gold

If you’d started to save for retirement in 1995 with a long-term view of your investments, you might have thought that stock in Kinross Gold would protect your savings. You’d be wrong.

If you had purchased stock in Kinross Gold in January 1995, you would have paid over $20 per share. Today, Kinross Gold trades for $6.42 per share. Thus, you would have lost about 70% of your initial investment.

Worse, Kinross Gold has only offered dividends about 10 times since 1995. The stock issued its last dividend in March 2013 at $0.08 per share. If you had been hoping that your Kinross investment would have at least made up for those losses in dividends, you'd be wrong.

Barrick Gold

Canadian retirees would undoubtedly be better off with an investment in Barrick Gold versus Kinross, but they would still be far from millionaires today. If you had invested in Barrick Gold in January 1995, you would have paid almost $31 per share. Today, the stock sells for $23 per share and issues a dividend of $0.053 for a yield of 0.92%.

Thus, you would have lost over 30% of your initial investment from the stock's $8 loss in value per share over the 25-year timeframe. This amounts to a loss of $0.32 per share per year, meaning that the stock would need to issue a dividend equal to that amount per year for the past 25 years for you to break even on the investment.

At most, you could expect a $0.20 annual dividend per share each year since 1995. Although you didn't lose as much money as investors in Kinross Gold, you still came out with a net loss.

Foolish takeaway

Be careful to research your investments thoroughly. If you are genuinely interested in protecting your retirement income, you should avoid gold stocks and find industries with a history of returning high interest to shareholders.

Banking, insurance, and technology are much better investments! These industries offer aspiring retirees high dividends along with significant capital gains that will help you enjoy your golden years in style.

CATEGORY

1. Investing
2. Metals and Mining Stocks
3. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:K (Kinross Gold Corporation)

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Date
2025/09/04
Date Created
2019/10/02
Author
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