



Why You Should Buy the Dips in Barrick Gold (TSX:ABX) Stock

Description

Gold stocks have largely lost investors' interest in the last few years, as risk appetites have been high and as [other sectors have been more "exciting."](#) At this time, however, we seem to be [setting up for a strong 2020](#) amid strengthening fundamentals for gold and gold companies.

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:GOLD) is the biggest and most well-known gold stocks that investors still seem to gravitate to for gold exposure. The stock price has been bouncing off 52-week highs recently, and in my view, Barrick stock is setting up for a strong 2020 for the following reasons:

The price of gold is soaring and will likely continue to go higher

The price of gold at the time of writing is hovering at approximately \$1,480 per ounce, as the precious metal continues its ascent.

In late 2011, gold prices peaked at close to \$1,900 per ounce, then retreated steadily to levels of just over \$1,000 per ounce at the end of 2015. The current price of gold is approximately 39% higher than the lows of 2015 and 17% higher than December 2018.

The one positive of witnessing an environment of low commodity prices is that out of necessity is that companies begin to look more closely at operational efficiencies and the expense side of the equation.

Simply put, when gold prices and revenues are declining, companies must focus on reducing expenses in order to preserve the health of their companies.

During the recent downturn in gold prices, gold companies across the board worked hard to reduce costs and improve balance sheets, which has left them very well-positioned to reap the rewards of rising gold prices today.

The price of gold is impacted by several factors. A falling U.S. dollar is good for gold prices, as gold is priced in U.S. dollars, which makes the metal less expensive in other currencies, ultimately lifting demand.

Increased geopolitical risk, including military conflicts, civil wars, and sanctions, is good news for gold prices. Gold is a safe haven and investors will flock to it in times of increased geopolitical risk, especially as it pertains to the U.S.

We can all decide what we think will happen to these factors in order to arrive at an opinion as to where gold prices are heading. I have laid out my expectations for these variables and based on these, I have concluded that gold is heading higher.

Barrick Gold makes its comeback

Barrick Gold has spent much of the last decade mired in controversy, as the company was downgraded from a must-own stock for gold exposure to a company on the brink of disaster.

Today we're in a very different situation, and Barrick Gold's stock price has increased 22% year-to-date as a reflection of this.

After years of overspending and poor returns, Barrick has gotten serious about improving operational efficiency and financial performance. The company has targeted and achieved annual cost savings, divested itself of underperforming mines, and has taken action to drive value at the company.

Barrick's \$18 billion merger with Randgold is one of the mining industry's biggest ever mergers that has created the world's biggest gold mining company and that will drive economies of scale, better profitability, and greater diversification.

Barrick's balance sheet is now in order, with significant cash on hand and manageable debt levels, and the company generates strong free cash flows today that will serve to drive growth and the return of cash to shareholders tomorrow.

Foolish bottom line

The market is emerging from a period of relatively low risk aversion – a time when stock market returns have set records and investors have enjoyed dramatic increases in wealth. During this period, gold and gold stocks were of no interest to anyone.

Today we are seeing the tide turning. Gold prices are rallying, gold companies are getting their acts together, and gold stocks are setting up for a strong 2020.

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