The Great Debate: Physical Gold vs. Gold Stocks

Description

Gold has had a remarkable 2019 so far, buoyed by global trade tensions and a renewed push for monetary easing from central banks in the developed world. The United States Federal Reserve has already dropped its benchmark rate twice this year. These conditions sparked a run for gold that pushed the spot price to a five-year high.

The yellow metal is now holding steady above the $1,500 mark. Earlier in September, I'd discussed why I think gold could go even higher in 2020. We are going to leave the bear and bull arguments on the table today. Instead, I want to get in on what is a surprisingly fierce debate in the gold investing community. That debate concerns investing in physical gold versus investing in gold equities.

Let's dive in and measure the pros and cons of both methods.

Physical gold

Investing in physical gold is an investment in the spot price itself. Because of this, holding physical gold does have distinct advantages. Gold has been viewed as a store of value for literally thousands of years. Viewed as catastrophe insurance, it is reasonable to hold a physical store of a form of money that will have purchasing power even in the event of a monetary meltdown. Those who swear by this strategy will point to historical examples like Weimar Germany or modern ones like Venezuela and Argentina.

Investors who purchase gold bullion will pay a premium to the spot price. Physical gold investors often recommend restricting purchases to one-ounce sovereign coins, which boast a lower premium. When it comes to physical gold, there is also the problem of storage.

It should go without saying that anyone with substantial stores of physical gold and/or silver should not advertise that information. Insurance companies will not cover more than a small sum of lost bullion, so safe and secure storage is paramount and will add to the costs of the investment.

Gold stocks

In March, I'd discussed why the yield curve inversion should inspire investors to pile into gold stocks. Gold miners experience earnings growth when the spot price enjoys an increase. Ideally, we want to target quality mining companies. The good thing about gold stocks is that investors can also quickly cash out their positive returns, while selling off physical gold is a more taxing and time-consuming process.

Kirkland Lake Gold (TSX:KL)(NYSE:KL) has been one of the best performers in 2019. Shares of Kirkland Lake Gold have climbed 72.9% in 2019 as of close on October 10. Its earnings have been consistently impressive over the course of the year. In the third quarter, Kirkland reported record production of 248,400 ounces and year-to-date production rose to 694,873. The company's cash position increased 31% in the quarter and totalled $615 million at September 30, 2019.

Gold equities are more vulnerable to fluctuations in the broader stock market, which means that investors who own gold stocks can sometimes be playing catch up in a turbulent period. Investing in gold miners also means taking on the risks of individual companies, and this can lead to disappointing returns relative to the increase in the spot price.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/07/23
Date Created
2019/10/11

Author
aocallaghan