Are Gold Companies the Best Stocks to Buy Ahead of a Recession?

Description

Preparing for an inevitable recession is one of the hardest things to do as an investor. Emotions and fear of loss can take over rational thinking, so it's important to try and eliminate any urge or emotion that could lead you to making a poor long-term decision.

Nonetheless, you still have to decide how much long exposure you want to have, how much cash to hold, and what defensive stocks you may want to add to give your portfolio some stability and resilience during a market downturn.

Gold stocks are usually a top choice among investors. The theory behind buying gold stocks is that recessions tend to lead to central banks printing money around the world for stimulus, and gold is historically investors' favourite asset to hold in times of inflation.

So, buying gold stocks could be a good choice, but they may not always perform how you'd like. Just like that fear that you can face ahead of a recession, many investors were facing in 2008.

Looking back, it's clear there was a point in 2008 when there was so much fear and uncertainty in the markets that even gold stocks were being sold so investors could hold cash. From its peak early in the year until its bottom at the end of 2008, the price of gold fell roughly 25%.

While this impacted gold stocks in the short term, it ended up being a great buying opportunity for investors who stuck to their guns, as gold immediately gained more than 100% from its bottom at the end of 2008 until its peak almost 36 months later in 2011.

Another option for investors is to invest in companies that operate in defensive industries. These businesses will be more stable through poor periods of economic activity, and the stocks tend to hold up better when the stock market is crashing.

You could also look to low-volatility stocks. A lot of these will be defensive stocks, and they will help you to minimize the fluctuations in your portfolio value.

Still, these should be added to your portfolio to complement gold stocks rather than as a substitute for gold stocks, and although you run the risk of a selloff in gold stocks during a market panic, there is no guarantee history will repeat itself.

One of the top choices you can make when looking for gold exposure is to buy **iShares S&P/TSX Global Gold Index ETF** (TSX:XGD).

XGD holds a basket of global gold mining companies, which gives investors exposure to a variety of companies that have operations all over the world. Buying the ETF rather than an individual company is a solid idea because it severely reduces your exposure to company-specific risk.

Gold mining is high risk, and problems with company operations and mining operations are almost impossible to predict, so minimizing any operational risk is highly recommended.

Because you own a basket of companies, though, you are still exposed to the natural leverage of gold mining stocks, so you can decrease some downside risk while still reaping all the rewards of the upside.

Its top holdings consist of **Newmont Goldcorp** and **Barrick Gold**, the two largest gold companies in the world, which make up a combined 35% of the fund, as well as **Franco-Nevada**, which accounts for another 10% of the fund and is one of the world's largest precious metals streaming companies.

It's never easy to predict a recession, but as talks of a recession become more frequent in the news and media, it generally means we are on the brink of some type of economic correction.

The prudent move today would be to at least take some steps to make sure your portfolio is as prepared as it can be for whatever comes next.

CATEGORY

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

TICKERS GLOBAL

1. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

PARTNER-FEEDS

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

Category

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

Date

2025/07/23
Date Created
2019/10/21
Author
danieldacosta