Is It Time to Buy Gold Dividend Stocks?

Description

The market has been nothing if not resilient this week, with investors getting back to business as normal with remarkable rapidity after the midweek crisis. While this looks like good news it suggests that the markets are in fact being overly reactionary when it comes to risk. Myopic investment strategies are helping to stabilize stocks, but could help drive a sell-off in the event of a black swan.

As a case in point, oil was up 4% immediately after the escalation in tensions in the Middle East Tuesday night. Gold and the Japanese Yen also saw gains as investors sought out safe havens. Uncertainty was everywhere in the press, fear was in vogue, and momentum investors were on standby to snap up stocks on weakness.

While some analysts pointed to the pullback in gold spot prices as the tensions simmered at the start of the week, the trend for higher gold seemed unstoppable as uncertainty boiled over midweek.

Then, as soon as the threat seemed to have passed, the markets snapped back and gold plummeted. The takeaway here is that if a sustained crisis developed, this overly sensitive pattern could spiral.

The case for gold dividends

With two of the largest gold miners in the world paying dividends, an investment thesis that includes passive income from precious metals is beginning to hold water.

Both **Newmont Goldcorp** and **Barrick Gold** pay dividends, with current yields of 1.3% and 1.1%, respectively, meaning that either stock would suit the general low-risk Canadian investor seeking a mixture of reassuring strength and reliable payments.

Indeed, should the situation in the Middle East worsen, gold could see a sustained bull run this year. The shortsightedness of the markets at the moment means that safe haven assets are closely correlated with headlines

This will not be the case for hydrocarbon fuels, however. Oil is unlikely to see sustained higher prices due to a number of factors ranging from oversupply to American insistence on lower oil to the economic stimulus needed in order to sustain global growth as well as studious, ongoing price maintenance by OPEC+. In short, oil is an ultra-absorbent sector right now and unsustainable as a source of upside.

In terms of supply, the U.S. has doubled oil output in the last 10 years, meaning that oil volatility is caused only under extreme duress and is increasingly resistant to risk – a pattern that has emerged in the last few days of unrest in the Mideast that was also hinted at last year, when 5% of the world's oil production was briefly halted. Prices then rose sharply, but very quickly lost their gains upon normalization.

The bottom line

A solid one-two punch for investors buying into risk involves snapping up gold, selling overvalued discretionary stocks, and holding enough cash to be able to buy weakened quality companies during a slump.

Buying gold stocks that pay dividends is emerging as a safe play on steady growth and compounding passive income over the long term, and adds defensive backbone to a stock portfolio.

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