



## Preparing for a Bear Market: What's the Best Way to Invest in Gold?

### Description

Gold has long been a safe haven for investors in times of volatility – which is why the price of gold has soared to multi-year highs. The **S&P/TSX Global Gold Index** is up 39.23% over the past year and has outperformed the market during the recent volatility caused by the coronavirus.

Last week, the **S&P/TSX Composite Index** lost 1.41% of its value amid virus fears, whereas the Gold Index gained 1.02% — proof yet again that gold has established itself [as a defensive asset](#).

However, retail investors have mostly avoided the precious metal over the past decade. Even with gold enjoying an impressive run, investors have largely stayed away.

According to James Bell, an analyst with RBC Dominion Securities, general investors are “are still largely underweight, or not involved in the gold sector.” A well-diversified portfolio however, should have some exposure to gold for times such as these. With that in mind, here are a couple of ways that investors can invest in gold.

### Buy the physical metal

There is perhaps no safer option than to buy the precious metal itself. Gold can be bought and sold a variety of ways. Nowadays the real thing is more accessible to investors and can be bought through online dealers.

Gold is typically bought and sold in two formats: coins and bars. Notably, trading physical gold isn't as easy as buying and selling a stock.

America Eagle and Canadian Maple Leaf bullion coins are the most commonly traded and would be easier to trade. Similarly, coins are easier to store and as such, usually command a slight premium over bars. If you are going to invest in the real thing, it may also be wise to invest in high-quality in-home safe or vaulting services.

## Buy an ETF

The easiest way to own gold is to buy an exchange-traded fund (ETF), which in turn owns the precious metal. The most popular is the **iShares Gold Bullion Hedged ETF** ([TSX:CGL](#)).

The objective of the fund is to replicate the performance of the price of gold bullion, less expenses and fees. As of December 31, 2019, the fund has \$624.6 million in assets and has a net asset value of \$12.77 per share.

As this is a fund, there are management fees, and its MER is 0.55% which equals \$5.50 for every \$1,000 invested. The fund tracks the price of gold quite closely and is up 4% thus far in 2020.

Over the past year, the fund has gained 19.05%. You'll notice that the fund has underperformed the Global Gold Index, as producers tend to outperform the actual metal price in a bull run. Conversely, in bear markets, the bullion ETF is likely to outperform as it has over the most recent bear run that lasted for most of the past decade.

## Buy stock in a gold producer

If you have a greater risk profile, then you're more likely to [see big gains](#) by investing directly into producers such as **Kirkland Lake Gold** (TSX:KL)(NYSE:KL).

Kirkland Lake burst onto the scene a few years ago. Since it was listed on the TSX, the stock price has shot up by 2,050%! A \$10,000 investment upon listing would be worth approximately \$214,810 today — not a bad return on investment.

Recently, Kirkland Lake gold's share price has weakened. Year to date, it has actually lost 5.19% of its value and marks the first time the company has underperformed since going public.

The good news is that it has presented investors with an opportunity. The company is trading at only 15.70 times forward earnings with a current P/E to growth (PEG) ratio of only 0.28. A PEG under one is sign that the company's stock price is not keeping up with expected growth rates. It is thus considered undervalued.

## Foolish bottom line

It is best practice to hold gold as a part of a well-diversified portfolio. Again and again, gold has proven to be a reliable counter to volatile and bearish markets.

How you invest in the precious metal is up to the individual, but the three options as listed above are the most effective ways to increase your exposure.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

1. TSX:CGL (iShares Gold Bullion ETF)

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mlitalien

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