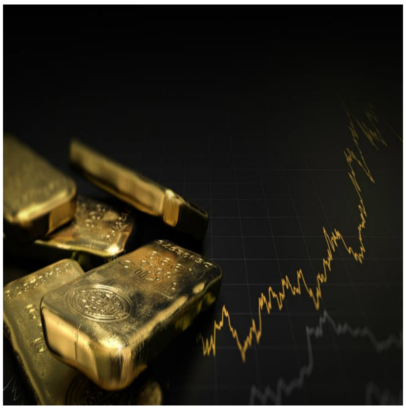

# Gold Stocks: The Best Portfolio Protection

### Description

As markets have been growing with volatility the last couple of weeks, many investors are wondering what they can do to protect their capital. Gold is always known as a safe-haven asset, but a number of gold miners have been sold off as well. Not to mention, the price of the precious metal has been flat to down in the past three weeks of intense volatility.



Gold being down as markets are crashing and fears are rising is a peculiar sight for investors. However, it's normal that it gets sold off at first. This is because when fear initially strikes, investors' demand for cash, and nothing else, goes up.

That will eventually change though, so here is what you need to know if you're considering making a gold investment.

## What's happened so far

As the market sold off, investors may have noticed gold stocks plummeting just as fast and wondered why.

Usually, when fear first strikes, the number one asset investors want to hold is cash, and that includes selling gold stocks to get it.

In addition, a lot of gold companies employ debt, which could also be troubling if credit markets dry up in a global recession.

This is what we've seen till now, with many gold stocks trading lower than they were just a few weeks ago, despite the price of gold being relatively flat.

When central banks cut rates, many companies got a bump to their share price for two reasons. Cash becomes worth less when interest rates are decreased, so investors are more incentivized to buy the stocks again. Furthermore, it eases the fears of reduced credit, even if it's just for the time being.

## What to expect

Going forward, it’s impossible to predict what will happen with markets and the economy. What you can predict is what will happen to gold based on the results.

If fear continues in markets, I wouldn’t be surprised to see gold stocks fall even further. If that happens, it will create a major buying opportunity for investors.

Central banks will all inevitably have to decrease rates again, as the economy actually gets worse. The fed is even scheduled to meet on March 17.

The last rate cut was more of a progressive move from the Bank of Canada and the Federal Reserve, but going forward, if the data shows the economy is slowing, both central banks, and those around the world, will have no choice but to add even more monetary stimulus.

When the inevitable stimulus comes, that’s when you can expect a big jump in the price of gold, as dollars are rapidly devalued, and investors seek out the safety of gold to hedge against inflation.

## How you can invest



Investors looking to take advantage, buy gold stocks to protect capital, and grow it as the dollar is devalued should consider buying the **iShares S&P/TSX Global Gold Index ETF**. By buying this ETF, investors can gain exposure to the gold industry, without having to worry about company specific risk.

Gold miners are an ideal choice when you expect the price of gold to rise. This is because most companies are leveraged to the price of gold. That means if the price of gold increases by 20% over a certain time period, almost every miner will be up by more than 20%, with all else being equal.

## Bottom line

For now, volatility isn’t going anywhere, especially when it comes to gold stocks. So, investors should treat a gold investment like any other.

You’ll want to be disciplined with your entry point, eliminating any impulse decisions. You’ll want to make sure you’re buying undervalued stocks; the XGD is undervalued at these levels. Lastly, you’ll want to hold it for a considerable time period, while central banks stimulate the economy and devalue cash.

By doing this, you’ll be in the best position to protect your wealth and position it for future growth.

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