
Gold Price: Should Investors Buy Gold Stocks Now?

**Description**

The price of gold dropped back below US$1,500 in recent days after hitting a multi-year high near US$1,700 per ounce. Gold bulls now wonder if this might be the opportunity they are waiting for to add gold stocks to their Tax-Free Savings Account (TFSA) portfolios.



## Gold rally

The gold rally of 2019 began in late May amid concerns that the trade dispute between the United States and China would extend well into 2020, putting pressure on the global economy.

Tariffs started to hurt economic activity as companies scrambled to find new suppliers and put investment on hold until they had clarity on the outcome of the negotiations.

Gold finished 2019 at US$1,523 per ounce, up from US$1,300 at the beginning of June. The United States and China signed a phase-one trade agreement in January 2020 that should have put pressure on the price of gold, but the yellow metal held the gains.

The coronavirus outbreak in China subsequently pushed gold above US$1,575 in February, and then again to that level in early March. Since that time, panic selling in global markets sent the gold price to a recent low near US$1,480. At the time of writing, gold trades at US$1,500 per ounce.

## Upside potential

While ongoing volatility should be expected, the conditions for higher gold prices remain in place. Gold is used as a safe-haven investment when economic turmoil increases. The spread of the coronavirus beyond China is causing extensive economic pain.

To put the situation into perspective, the U.S. is working on a US$1.2 trillion program to support the economy. Canada is providing $82 billion to assist workers and small businesses during these challenging times.

The American currency is in strong demand amid a global rush for liquidity, thus driving up its value against a basket of other currencies. Holders of foreign currencies often buy gold as a hedge to protect their wealth, as gold is priced in US dollars.

Gold doesn’t provide any yield, making it less attractive when interest rates rise. In recent weeks, the United States and Canada cut interest rates to help support the economy, which results in lower returns offered by guaranteed investments, and government bond yields are also down significantly. The resulting drop in the opportunity cost of owning gold can boost gold demand.

## Should you buy gold stocks?

Gold stocks initially rose along with the increase in the price of the yellow metal. **Barrick Gold**, for example, traded at $16 per share last May. The stock price topped $29 in February, before pulling back to below $22 on March 13.

At the time of writing, Barrick trades for close to $24.



Given the current gold price and the potential for the rally to extend through the end of the year, gold stocks appear to be oversold. Barrick Gold, in particular, could finish 2020 with zero net debt and has the potential to generate significant free cash flow at existing or higher gold prices.

The board raised the dividend by 40% for 2020, so management is confident in the outlook. Improved margins should show up in the results in the coming quarters.

Pundits expect price fluctuations in the gold market to continue, as investors digest reports on the spread of the coronavirus and its impact on the global economy.

Amid so much uncertainty, investors who want to use gold as a hedge in their portfolios might consider adding gold stocks to their holdings right now.

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