



Should You Hide in Barrick Gold (TSX:ABX) Stock as the Market Crashes?

Description

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) stock got clobbered a good one on the [“everything sell-off”](#) suffered this month. Not only did equities tank, but bond funds and gold stocks were also ditched to the curb, as investors rushed to get into cash.

Under a normal market environment, gold and bonds would pop on such a market meltdown. But we’re not in a “normal” market right now. You could say it’s broken, and that has many investors questioning whether their “safe-haven” assets are really that safe as the coronavirus crisis drags on.

Barrick stock took a slight dip earlier this month, but shares have since partially recovered. ABX shares bounced up 10.6% on Monday, while the **TSX Index** proceeded to nosedive by a staggering 5.3%. Should the crisis worsen, I think the market will normalize, and Barrick could continue to rally as stocks sell-off. But given the **TSX Index** is already down nearly 40% from the top, I’d have to say you’re late to the show by getting into gold stocks at today’s valuations.

Barrick Gold could lose its lustre if the tides turn

I like to see gold and gold stocks as a form of insurance against a tanking market.

If I had to guess, I’d say the markets are closer to a bottom than a top, even as headlines over the spread of the coronavirus continue to scare investors out of their wits. After a near-40% drop, you’re essentially paying up hand over fist for insurance after the situation you were looking to insure against has already begun. As such, investors seeking safety should resist the urge to rotate out of stocks and into “safe” plays like gold and the stocks of gold miners.

Barrick is a terrific hedge for any portfolio. And as far as gold stocks are concerned, I guess you could say it’s the gold standard! Like with any investment, however, you need to consider the price you’ll pay. And after the damage has already been dealt, I’d say it’s just way too late to buy gold, even if you’re expecting an [economic depression](#).

Barrick Gold is the gold standard

On the operations front, Barrick has been killing it, although production costs aren't yet at levels you'd consider optimal. The company has been making moves to improve the health of its balance sheet. With some of the most prized assets in its industry, the company is undoubtedly a go-to play for those seeking gold exposure for their portfolios.

That said, one must also consider the value of the underlying commodity that Barrick mines. As you'd expect, gold prices have been soaring amid the economic chaos. The Fed announced aggressive stimulus measures, sending gold prices north of \$1,600 per ounce, which is at the higher end of the spectrum. Should stocks become sexy again to the eyes of investors, I'd expect gold prices to pull back. Any such correction would cause a gold miner like Barrick to take a dive.

Gold is substantially higher than the mid-cycle price at this juncture, making Barrick one of the more expensive stocks on the TSX Index.

Foolish takeaway

Don't buy gold *after* a crash. Buy stocks instead, so you can pay a discount and not a fat premium to a stock's intrinsic value.

Yes, gold is a safe haven asset that'll fare well if things get worse. However, if you believe that most of the damage has already been done to the markets, it just doesn't make sense to get into the gold miners at today's valuations. Insurance only makes sense if you buy it before the fact!

Moreover, Warren Buffett once noted that gold is an asset that produces nothing. He's right. Barrick will "produce" a safe 1.5%-yielding dividend for your portfolio over time, but I'd say that the gold miner is still one of the more unrewarding plays, given where I think we are in the market cycle. Overpay for the stock and you could leave your portfolio in a rough patch once the next bull is born.

Stay hungry. Stay Foolish.

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