The Best Way To Own Gold Is Through This ETF

Description

There happen to be a variety of ways that one can choose to gain exposure to precious metals like gold. Those who have not yet added gold to their portfolio may not know where to start.

In this article, I'm going to discuss the pros and cons of different forms of gold investing.

Buying physical gold

The old school way to invest in gold, buying physical gold coins, bars or even jewelry as a long-term investment is certainly one way to go. As investors who have bought physical gold know, storage costs for precious metals can be high. Gold typically does increase over time due to inflation and currently devaluations.

However, the storage costs one must pay to keep their gold safe serves as a negative dividend yield. That said, given that we're moving into a world with trillions of dollars of negative-yielding government debt out there, the argument for physical gold is improving!

Another often overlooked aspect of buying and selling physical gold is the premium to spot one will pay to acquire gold. Also, there's the discount to the spot price one will receive to sell gold. The cost is typically 4% or 5% on each end. These additional costs make physical gold investing both burdensome and costly.

Buying mining equities

Purchasing equity positions in companies that mind gold is a great way to gain exposure to the price of gold. However, investors do need to keep in mind that gold miners do leverage to the price of gold.

This means that investors often see amplified returns (to the upside and the downside) when investing this way. This is mostly due to the fact that companies are able to use debt to gain leverage from their operations.

Many gold stocks pay dividends, which allows investors to receive a payback on their investment over time. The free cash flow well-run mining companies can provide allows for higher growth rates over time, on average.

That said, each individual minder holds idiosyncratic mine risk and operational risk that provide these outsized average returns over time (higher risk, higher reward), which is why I recommend that investors go the third route.

Buy a gold miner ETF

There are a number of Exchange-Traded Funds (ETFs) out there. These ETFS track everything from the spot price of gold to a basket of gold miners. I prefer ETFs like the **iShares TSX Gold Index ETF**, which holds a basket of top-notch, Canadian-listed gold miners with global exposure.

This ETF gives investors increased leverage to the price of gold. I like this because I believe the price of gold will continue to soar higher as we enter a recession in the next 12 months.

As well, this ETF offers high levels of diversification, thus eradicating the aforementioned idiosyncratic mine risk one would take by buying individual miners. This ETF has a very low 0.40% MER, which is essentially covered by the fund's yield.

Stay Foolish, my friends.

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