This Gold Stock Can Protect You From the Market Crash

Description

The market crash has crushed countless portfolios. But not every stock is feeling the same pain.

Gold, for example, is traditionally a safe-haven asset. Throughout history, gold has often *risen* in value during a bear market. Mining companies that produce gold, therefore, could see their profits rise as well.

Yet it's not as simple as buying gold stocks. Many mining companies are riddled with debt. Liquidity is drying up, and indebted businesses may find additional financing difficult to attain, even if their reserve base is rising in value.

What you want to do is find a gold mining stock with a pristine balance sheet and rising free cash flow levels. These companies can not only survive the market crash, but also properly invest throughout the crisis to capitalize on their rising reserve portfolios. Long term, well-financed businesses even have the chance to buy their struggling competitors at bargain prices.

Trust in gold

As mentioned, gold itself is an incredible market hedge. At the start of 2007, just before the financial crisis of 2008 began, gold was priced at US$800 per ounce. By the end of 2009, gold had hit US$1,300 per ounce. Gold rose in value by 60% while global markets were still in meltdown mode.

The coronavirus crash looks similar. Stocks worldwide have plummeted by 30%, yet gold prices remain strong. At the start of the year, gold was priced at US$1,500 per ounce. Today, prices are above US$1,600.

Gold mining ETFs, meanwhile, have *lost* value. Remember, gold mining is a capital-intensive business. Miners constantly need to tap capital markets to pursue new projects and complete expansions.

To take advantage of gold's strength, you need to find miners that are cash rich. That narrows the list down significantly considering the mining industry is notorious for financial mismanagement. But there are companies that can succeed.

If you want to protect and grow your portfolio during the market crash, look no further than **Kirkland Lake Gold** (TSX:KL)(NYSE:KL).

Don’t fear the market crash

Kirkland Lake is a breath of fresh air when it comes to mining stocks. This company has been able to expand rapidly while lowering its cost structure. Rising sales and falling costs have resulted in free cash flow generation. Instead of squandering the cash on growth-at-all-costs initiatives, management has opted to pay a rising dividend and repurchase company shares.

Since 2015, the **S&P/TSX Global Gold Index Fund** has risen in value by 95%. Over the same period, Kirkland stock has risen in value by an astounding 2,500%!

During a market crash, few stocks are spared. Despite its rock-solid business, Kirkland Lake shares have also felt the pain, falling by 22% since the year began. This looks like a clear buying opportunity.

Since 2016, all-in productions costs have fallen from $906 per ounce to $564 per ounce. Production has risen from 313,000 ounces to 975,000 ounces. All of this has been achieved with *zero* debt. Last year, free cash flow topped $460 million. Kirkland now has more than $700 million in cash reserves, despite repurchasing eight million shares since 2017 and paying a multi-million-dollar dividend.

Here’s the best part: Kirkland can take advantage of the market crash by repurchasing stock.

Most mining companies repurchase shares when stock prices are high. With elevated debt levels and minimal cash reserves, these miners need to cease buybacks when equity prices are falling. This is exactly the *opposite* of what you want as an investor. It’s essentially buying high and selling low.

With gobs of free cash flow, zero debt, and plenty of liquidity, Kirkland can repurchase shares *correctly*. Its stock has fallen by 22% year to date, but management now aims to buy back 20 million shares over the next 12 to 24 months, seven million of which should be repurchased by the end of May.

Kirkland is betting big on itself during the market crash. Patient investors should consider following suit.

CATEGORY

1. Coronavirus
2. Investing
3. Metals and Mining Stocks

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Business Insider
2. Msn

3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Coronavirus
2. Investing
3. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/08/24
Date Created
2020/04/01
Author
rvanzo