
Market Uncertainty: Hedge Your Gains With This ETF

### Description

The global situation today is practically screaming for investors to have some amount of their holdings in precious metals. All the money-printing occurring globally has resulted in a system awash in cheap money. This process, theoretically, leads to inflation, against which precious metals have acted as a hedge and a store of value. Unfortunately, inflation hasn't been much of an issue for the past decade.



So, why is this time likely different? The simple answer is globalization. For most of the past three decades, companies have been moving their manufacturing operations overseas to benefit from cheaper labour and parts. This cost reduction was passed on to the consumer, depressing inflation on goods like electronics, packaged foods, and clothing.

Cheaper costs for basic consumer goods combined with decreasing oil prices in recent years has made general inflation appear to be rather low. The winds of change are coming, though, after the fallout from the recent pandemic becomes clear.

## The end of globalization

We just moved out of the golden age of globalization. The future of globalization is going to be far different than we know today. Companies are already considering moving a large part of their operations back to their home countries. The current pandemic has raised security concerns facing supply chain.

If companies move their operations back home, the opposite effect should occur. Prices of consumer goods will increase with higher labour costs. The increased costs will be passed to consumers.

## Precious metals as a hedge

In any event, whether money printing or decreased globalization cause price inflation, there is a very good chance that gold prices will increase relative to fiat currencies. The reason you want to own some gold is so you can benefit from rising gold values.

Owning precious metals miners is a good way to get leveraged exposure to the price of the commodity. An ETF like the **iShares TSX Global Gold Index** (TSX:XGD) provides exposure to the sector. The stock is already up significantly this year, rising about 90% since the same time a year ago.

The ETF has a very small dividend at 0.11%, so I wouldn't count on it as an income stock. The dividend may rise if many of the companies within the ETF begin to raise dividends, but I wouldn't count on a high yield any time soon.

The cost of owning the ETF is not overly expensive, but it is not the cheapest ETF either. It has a management expense ratio of 0.61%. The fees are far less expensive than the trading fees you would accumulate buying individual stocks yourself, however, so it is worth it for a specialty ETF such as this.

## The bottom line

Precious metals traditionally are hedges against uncertainty and a store of value. Right now, the economy is under threat, globalization is falling apart, and inflation is poised to rise. Own gold in some form to hedge against that uncertainty. An ETF like XGD is a great way to gain leveraged exposure to the sector at a reasonable price.



**CATEGORY**

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

**TICKERS GLOBAL**

1. TSX:XGD (iShares S&P/TSX Global Gold Index ETF)

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