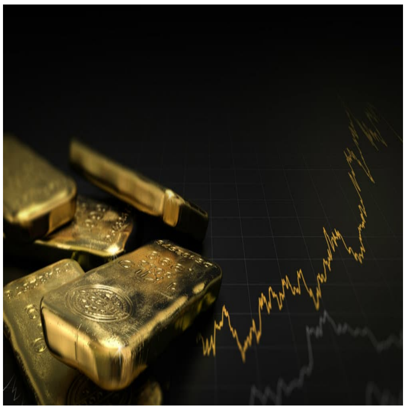

Recession Alert: This Billionaire Investor Says you Should Buy Gold!

Description

In May, the stock market is on the upswing. Driven by aggressive monetary policy, investors have been piling back into equities. For investors who held on through the March stock market crash, it's been a welcome development. Some, however, are saying it won't last.

In April, billionaire Paul Singer said in a letter to investors that he expected a 50% decline in stocks. Prior to this, he had counselled his employees to anticipate a prolonged quarantine. That was on February 1 — long before most people saw what was coming.

According to a *New Yorker* profile, Singer's hedge fund (Elliot Management) has achieved returns of 14% annualized. The article does not state over what period, but Elliot Management has been in operation since 1977. If the returns quoted are for the entire life of Singer's funds, then his performance has been above average.

Why mention that?

Because Singer has made no bones about what he's investing in. In a recent *Financial Times* article, he was quoted as saying that gold is one of the best assets you can buy now. Calling it *"one of the most undervalued assets available,"* he believes it's worth many times its current price.

So far, Singer hasn't made public how much exposure he has to gold. However, it's likely to be substantial. If you're interested in following him, here are a few things to keep in mind.

Why gold does well in recessions

The big reason why gold performs well in recessions is because it's a scarce commodity that holds its value over time. It has a 2,700 year track record of use as a currency and it has been a reliable store of value that entire time. Demand for gold comes from jewelry, manufacturing, and other sectors. The supply is limited by gold's rarity.

The mix of supply and demand guarantees that gold will always be valuable by weight. As for whether it's going to be more valuable in the future, that largely depends on the broader economy.

When there's obvious money in stocks, investors lose interest in gold, which produces no cash flows and under-performs the major stock indexes. However, in recessions, investors get a lot more interested, seeing gold as a safe haven.

This makes a fair bit of sense. As a scarce commodity, gold's value isn't dictated by corporate earnings or GDP growth. As long as people want gold and there is not much to go around, it will have value. And that value will increase if there aren't many opportunities in other asset classes.

How you can invest in gold

If you want to invest in gold, you can always hold the physical commodity. Gold is easy to buy and easy to store in small quantities. If you want to store larger quantities, you may need to pay for space at a storage facility.

You can also invest in gold stocks. Gold producers like **Barrick Gold** (TSX:ABX)(NYSE:GOLD) can be bought and sold on stock exchanges like any other publicly traded company. Gold producers' stock prices are influenced by the price of gold, but there are other variables at play. The company's production levels and financial position are also big factors.

If you look at Barrick, for example, you'll see that it has risen about 60% year-to-date. That's a lot more than gold itself over the same period. In its most recent quarter, Barrick earned $400 million, up from $111 million in the same quarter a year before.

That's bigger than the increase in the price of gold, so Barrick's stock has jumped more than the commodity it mines. There's always the potential for that with gold stocks. Depending on production levels and expenses, they could perform much better or much worse than gold itself.

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andrewbutton