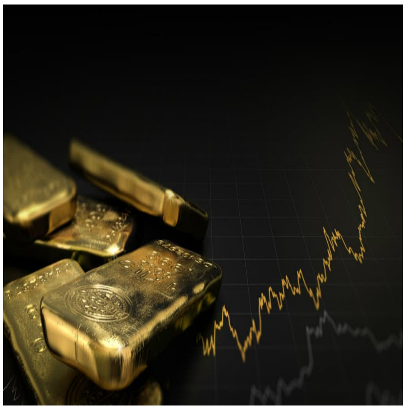

The Golden Rule: Should You Buy Gold Mining Stocks Today?

Description

You all know the golden rule, "He who has the gold, makes the rules." The years of central bank experimentation are starting to show the flaws in the system. Gold miners are certainly making money off the move toward gold.

I have liked gold companies as investments for a number of years. Global debt levels are ridiculously high, and the recent government spending regimen has certainly not helped matters any.

It's highly likely that all this debt will come to a crashing halt at some point in the near future. If that were to occur, gold would be a great holding to have as an ideal safe-haven play.

Of course, I am not the only one who thinks like this. Many investors have gotten into the gold trade in recent months, driving the stocks of mining companies higher as gold prices increase profitability.

Larger players like **Barrick Gold Corp.** (TSX:ABX)(NYSE:GOLD) and **Newmont Corp.** (TSX:NGT)(NYSE:NEM) have certainly benefited from the trade.

The golden rule

Newmont has been performing exceptionally over the past several months along with other gold miners in the space. The company generated $611 million in free cash flow in the first quarter, adding some credence to further upside. It then used the free cash flow to increase the dividend by 79% — a nice bonus while you wait for the stock to rise.

Newmont also managed to take advantage of the lower interest rates to lower the interest on its debt, managing to negotiate an interest rate of 2.25%. That is unbelievable for a mining company and further underscores the faith that lenders have in the strength of gold prices.

Barrick also had a good first quarter of 2020. One of the most important numbers, in my mind, is the fact that Barrick managed to lower its debt by 17% from the end of Q4 2019.

Furthermore, it doesn't have any significant maturities until 2033, giving it ample time to strengthen its balance sheet. It also produced solid free cash flow of $438 million, allowing it to maintain its dividend.

The downside

The problem with the parabolic rise in many gold mining stocks is that they can turn around in a hurry. The sector is prone to boom and bust cycles. You can make a fortune in gold, but it can turn around in a heartbeat. Just ask investors who bought shares before the market collapsed in the early 2010s, the late 1970s, or even the miners in the Yukon in the 1800s.

Right now we are getting into the boom phase, although there does seem to be some merit to the run in gold. The economic backdrop of high government debt and money-printing gives confidence to the underlying fundamentals.

Nevertheless, I remember the same arguments being made back in 2012. Of course, at that time, the entire global economy wasn't shut down.

The Foolish takeaway

This is certainly the year of the gold miner. Patient investors would have done very well had they decided to invest back in 2015. While it's hard to be patient, the moves in these stocks prove that a prolonged period of paper pain can turn to gold in a hurry when these stocks start to move.

I'm especially comforted by the way these companies are paying down or renegotiating their debt. That fact, combined with the free cash flow they are starting to pump out, and the underlying fundamentals is very encouraging.

They are an intriguing buy at these levels if you are looking for a large gold company to take advantage of a positive environment for gold.

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