Here’s Why Gold and Cannabis Stocks Are a Powerful Combo

Description

They’re vastly different on the face of it — two areas of the TSX that traditionally appeal to very different investment types. But today we will be exploring whether 2020 is the year for buying into both gold and cannabis. How well do these two investment themes complement each other? Are there better names to buy and hold than others? And what is it about these industries that makes them recession resistant?

Diversifying across industries strengthens a stock portfolio

Gold and cannabis were two areas that really stood out mid-crash. Cannabis stocks may be down on average by around 23% over the last three months. However, their performance during the crash was surprisingly stubborn, with some names outperforming their sector. Gold saw predictable gains, and many large producers provided islands of stability amid the froth.

The problem with gold and cannabis stocks is that they are both pure plays heavily influenced by spot prices in single commodities. The downside here is that both industries are therefore dangerously overexposed to market forces. However, this can work out if both industries are held together in a portfolio. This is because they exist at opposite ends of the risk spectrum.

There is also another reason why gold and cannabis might belong on a single shopping list: resilience during the pandemic. Don’t try and index cannabis, though. The **Horizons Marijuana Life Science ETF** may have been steadily rising, as risk returned to investors’ shopping lists. However, it’s been down 23% over the past three months. Compare this with **Aphria’s** market-matching 17% loss over the same period.

Trim the rallies and buy the dips

Investors may be holding out for the bottom. Conversely, some analysts are beginning to wonder whether a recovery is already priced into the market. But there is one strategy that can walk a middle line between caution and bullishness. It’s a simple method that involves building on weakness and trimming underperformers on strength.

By buying the dips and selling the rallies, investors can gradually optimize a portfolio for any market. Investors should add big names in both sectors to a post-rally watch list. Front-runners include high-growth names **Kirkland Lake Gold** and world-class producers like **Newmont**. These stocks also satisfy a passive-income strategy. Kirkland's yield of 1.24% is tempting, while Newmont pays a 1.5% dividend.

Earnings season provides opportunities to ride upside. However, investors may want to wait for the momentum — both positive and negative — to dissipate before building or trimming positions. Long-term portfolios geared towards years of steady growth should be built on a bedrock of value. One benefit of the market crash is that it highlighted just how much certain sectors were really worth.

Appetite for risk is likely to fluctuate, with gold and cannabis likely to part company in opposite directions. But this is what makes them a complementary tag team. As gold prices rise on recession fears, cannabis is likely to depreciate in value. And when the market rallies on vaccine hopes, the reverse will hold. Investors can use both scenarios to build and trim, gradually optimizing their positions.

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vhetherington