



Is the Gold Rush Over for Precious Metals Stocks?

Description

Even though the global economy is a mess, stocks are telling a completely different story. Markets are roaring as if we are entering a new golden age of economic prosperity. I am in fact happy that volatility is dropping and risk is coming back online. Personally, I hope the gold rush is over at the moment. However, it is not for the reason that you might think.

I am looking at adding to gold positions as long-term holds, but unfortunately, the stocks have gotten quite lofty of late. Dividends are much smaller than they once were due to the [huge capital gains](#). One of my favourite stocks, **Franco-Nevada Corp.** ([TSX:FNV](#))([NYSE:FNV](#)), took off into the stratosphere.

The worst part about investing

The hardest part of investing is the fact that a great way to buy stocks is to purchase great companies at a reasonable price. Unfortunately, the best time to get stocks at a great price is when they have fallen out of favour.

The current global situation generated a run in gold prices. Gold is up somewhere in the range of over 30% in U.S. dollar terms year over year. Gold-related stocks have done even better, with some up between 50 and 100%.

Since the beginning of the year, Franco-Nevada has risen from about \$125 a share to over \$200. The yield has collapsed to under 1% as the capital gain has reduced the yield considerably.

It's a great business

Gold will likely increase in price in the upcoming years, primarily due to the massive money printing that has exploded on a global scale since March. Franco Nevada is positioned to take advantage of the growing gold value. It has multiple investments in mines around the world. The majority of its assets are based on precious metals, which should be a great way to play growth higher demand for gold.

Even though it has a global focus, however, there is security in its revenue streams. In Q1 of 2020, 86.9% of its revenues were from the Americas, reducing geopolitical risk. A reasonable portion of that revenue, 20%, comes from Canada.

Its balance sheet is one of the best you can find on this planet. Franco-Nevada invests from free cash flow, not from debt. It strives to maintain a debt-free balance sheet, allowing it to take advantage of opportunities while riding out slow periods. The team has a long-term focus and its strategy speaks volumes.

Its dividend is as rock-solid as its balance sheet. Franco-Nevada has a small dividend yield of just under 1%, but it has grown that dividend for over a decade. In its Q1 2020 results, it announced that it would increase the dividend by 4%. The increases are small, but responsible in order to guarantee the payment and potential growth going forward.

The bottom line

Gold stocks soared this year, going on a tear. After a giant run, the gold stock has started to pull back. Franco- Nevada has always been expensive as a result of its diverse income streams and solid balance sheet. Unfortunately, the stock has gone parabolic in recent months, making me nervous to add shares at these levels.

This company is one of my favourites when it comes to investing in the gold sector, so a pullback would be a great opportunity to add some more.

If markets calm down even more and the gold price retreats for a time, I will definitely take advantage of a falling share price to build a position in this great company.

CATEGORY

1. Dividend Stocks
2. Investing
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