Inflation Risk! 1 Stock That Will Protect You From Central Bank Money Printing

Description

One of the hardest things about investing is trying to anticipate what is coming next. Every investor faces this daunting task. All we can do is look at history, compare it to the present, and do our best to make decisions that will protect our investments. Periods of waiting can be unbearably long when you wait for your preparations to play out.

In this article, I want to look at how owning gold through a low-cost gold company can help you protect your portfolio from inflation, leverage capital gains, and earn a small yield as well.

Central bank money printing

This is the biggest and most obvious threat to our finances. In the past, there have been numerous examples of countries trying to print their way out of their debts. Germany did it in the 1920s and 1930s. Zimbabwe experienced it in the late 2000s. Argentina is experiencing it in recent years. In each of these cases, money printing was devastating to their economies.

There are numerous stories surrounding these periods of hyperinflation — stories of children playing with stacks of practically worthless bills or taking wheelbarrows of cash to buy bread. When money is printed en masse, hyperinflation is sure to follow.

Cash becomes worth less and less all the time, as more money is printed. In large cities like Toronto and Vancouver, this reality is already taking place. Assets such as housing have risen incredibly fast, as cheap money has led to asset inflation. The average citizen is now hard-pressed to purchase a home of their own.

How do we protect ourselves from hyperinflation?

A traditional strategy for protecting your purchasing power against inflation is to own gold. Gold has been a store of value for thousands of years. It is still considered an effective inflation hedge. One way to think of it is that gold prices don't rise. Rather, the value of the fiat currency falls, resulting in more dollars needed to buy one ounce of gold.

Gold companies benefit from the relatively higher gold price, especially those located out of the United States at the moment. A Canadian miner like **Agnico Eagle Mines** (TSX:AEM)(NYSE:AEM) gets paid in U.S. dollars and then converts that money into Canadian dollars. In Canadian dollar terms, gold has already been hitting all-time highs.

When AEM starts to report earnings, its increased earnings power will be reflected in the numbers. Investors will begin to flood into the stocks, driving prices higher. If the price of gold continues its march upwards, the mining stocks like AEM will have leveraged upside moves.

AEM already reported excellent results in Q1 2020. The low-cost producer had cash costs of only $836 an ounce in the first quarter, making it very profitable at these prices. The increased cash flow allowed the company to hike its dividend by 40% last year. Currently, the miner pays a quarterly dividend of US$0.20 a share. Agnico has paid a dividend every year since 1983.

The Foolish takeaway

Buying gold and gold stocks has been a proven strategy in tough times, especially when there was inflation. Rising gold prices are frequently the result of inflation, since it takes more dollars to buy one ounce of gold as the value of a dollar decreases. If you want to protect your portfolio from inflation, owning a low-cost gold producer like AEM will help you and allow you to earn a yield at the same time.

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1. Investing
2. Metals and Mining Stocks

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1. NYSE:AEM (Agnico Eagle Mines Limited)
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