



Don't Buy Gold: Do This Instead to Create Wealth

Description

There's been plenty of talk about the need to buy gold in 2020. In times of crisis, gold acts as a safe haven for investors. During this current crisis, there's yet another reason to buy gold — currency devaluation. Here's a look at what this means for investors and some better alternatives to gold.

Why buy gold?

When uncertainty emerges, a subset of investors move cash to gold. The yellow metal tends to hold its value impressively well when the world seems to be falling apart. In fact, its value surges during stock market crashes and recessions. The value of an ounce of gold surged 171% between 2006 and 2011.

During the previous financial crisis, governments printed money to bailout banks. In this crisis, the government has printed more money than ever before to bail *everyone out*. Canada's fiscal stimulus measures have widened the fiscal deficit to a jaw-dropping \$343 billion this year. A similar story is playing out across the world.

Put simply, as governments print more, money loses its value. This is why veteran investors such as Ray Dalio and Stanley Druckenmiller want to buy gold and hold it for the next few years. Even governments are hoarding gold. Central banks across the world have increased their gold reserves over the past few months. If you're concerned about volatility and the government's relentless borrowing, there might be better alternatives for you.

Better alternatives

Probably the best alternative for investors looking to buy gold is buying stocks of companies that mine gold. Canada's **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) is the second-largest gold miner in the world. The stock price has outperformed gold itself. While gold is up 16.7% year to date, Barrick stock is up 55.6% over the same period.

Barrick stock tends to magnify gains in the market value of gold. This is because the company can add leverage to its balance sheet and extract higher profits when the price of gold appreciates.

Despite this price action, Barrick Gold still appears [reasonably valued](#) by conventional measures. The stock trades at just 11 times earnings and just twice book value per share. That's the sort of stock valuation even Warren Buffett would appreciate.

Barrick's rivals, **Kirkland Lake Gold Mines** and **Agnico-Eagle Mines**, are other alternatives if you don't want to buy gold directly. If you're looking for a convenient way to bet on gold, the **SPDR Gold Trust ETF** is another option.

Bottom line

At times of uncertainty, gold acts a safe haven. Investors buy gold to protect wealth when the stock market becomes erratic. 2020 has been an extraordinarily volatile year. Many of the economic risks that emerged during the crisis have not yet subsided. Instead, the government has magnified risk by borrowing more money than ever before.

Now, as the government continues to print money and add to the debt burden, gold has become more valuable than ever. Investors who see inflation or more economic pain on the horizon should consider adding the shiny metal to their portfolio for downside protection. For upside, you could also consider betting on gold miner stocks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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