Invest $1,000 in This Golden Opportunity Stock Today

Description

If you are at all concerned with the amount of government debt and spending in the world today, you need to buy gold. Gold is the ultimate hedge against inflation. This fact is evidenced by the price action of gold over the past 20 years. When banks printed money to postpone the financial in 2008, gold shot up to over US$1,800 an ounce in the following years.

Sure, gold fell back for a while. Over the span of about five years, gold retreated to about US$1,100 an ounce. Many investors use this fall to indicate that gold was not a good investment. The reality is, though, that gold was still up significantly from the pre-financial crisis period.

The situation today

If you think that things were bad in 2008, they are much worse today. The amount of government spending taking place in 2020 dwarfs the spending that was taking place during the years following the financial crisis. There is a very high likelihood that the price of gold will continue to rise as a result.

Before that situation occurs, it would be a smart idea to invest in stocks that would benefit from a rising gold price. Gold miners will have a leveraged reaction, so it would be wise to include these stocks in your portfolio. A combination of large and small gold producers is a great way to benefit. One small gold miner that I just added is **Argonaut Gold** (TSX:AR).

A small producer with upside

Larger gold producers have already had a great run. Although I think there is likely to be more room to go ahead, I am starting to look at smaller producers that have the possibility of doubling your money or more. Argonaut looks tempting as a play on gold for a number of reasons, such as its valuation, balance sheet, and potential opportunities.

The company has a small market cap at about $432 million at the moment. Although it moved up significantly from its lows of under a dollar, it still has a way to go. If gold prices remain strong, Argonaut may be able to achieve its all-time high of over $10. That would be a very nice return indeed.

Argonaut is trading cheaply with a forward P/E ratio of eight times forward earnings and a price to book of 0.85.

The business

Argonaut has several projects underway as well as in development. What I like about these projects is that they are all located in North America, mitigating some of the geopolitical risks that other companies may face. About half of these mines are producing with the others still set to come online. The company's plan is to focus on growth, harvesting the existing cash flow from projects to fund new projects.

I like how Argonaut is using US$1,500 an ounce as its benchmark price. Gold prices have been holding in steady at US$1,700-$1,800 an ounce for quite some time now, meaning there is the potential for upside surprises on earnings. Of course, with its cash being reinvested into projects, the earnings might not be coming until sometime far down the road. Investors will need to be in this for the long haul to realize its potential.

Downsides

Argonaut looks pretty good as a play on gold, but there are a few downsides. For one thing, it does not pay a dividend. You don't get paid to wait at the moment. There have to be capital gains. Secondly, this is not a trade. You are using this as a play on the long-term price of gold. Gold will have to stay high or rise to do well on this stock, since the company's mission is to use its cash to develop more mines. The growth-focused strategy only works if gold stays high or gets higher.

The bottom line

Argonaut is an example of a stock you can earn from if you have a long-term outlook on gold. It is focused on growth with half of its mines still in development. In the long run, this company should continue to do well. Government spending and currency debasement should make a bullish case for gold. This is a gold stock with leveraged upside potential that investors can buy today.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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1. TSX:AR (Argonaut Gold Inc.)

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Date
2025/06/27
Date Created
2020/07/15
Author
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