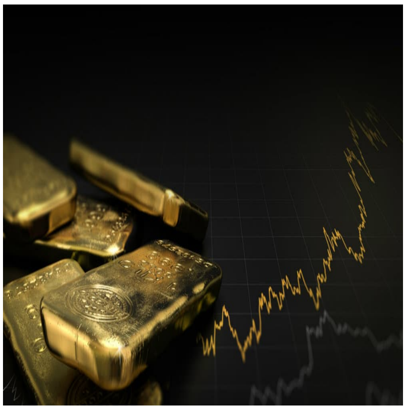

Inflation Risk: 1 Gold Stock That Will Protect Your Wealth

Description

We are in a period of high inflation. Even though the CPI states that inflation is low, the truth remains that we are suffering from this dilemma. If you know where to look, there are a few benchmarks that demonstrate that there is more inflation than the official index seems to indicate.

Think of it this way. You are standing in an elevator without any windows with a few friends. The elevator is on the top floor, and you all agree that you want to go to the bottom floor. The elevator begins to move and you feel a slight pressure on your feet. During the course of the trip, however, you barely notice anything. It is as if you are standing still since you and the elevator are moving at the same rate.

Now imagine that the same elevator has a window. Outside you can see a single building across from you. From your perspective, it will appear as if you and your friends are now moving downwards at the incredible rate you assumed in the first place. You now have perspective, since you are able to judge your motion relative to the building outside the elevator.

Gold gives perspective

The historical store of value, gold, gives us perspective into the actual debasement that money is facing. Its price is one of the few reference points that show us how fast inflation is actually eating away at our savings. Just look at the price trend over the past several decades.

Look at a macrotrend's long-term U.S. dollar (not inflation-adjusted!) price of gold over the past 100 years. When the U.S. decided to go to a system of fiat currency in the 1970s, the gold price shot up relative to the U.S. dollar. More accurately, the U.S. dollar lost value against gold.

Today, inflation is raging. In January of 2001, gold was trading for about US$265 an ounce. Since that time, the Federal Reserve has been pumping out cash like crazy, driving the dollar price of gold up. Even when the price of gold "fell" in the mid-2010s, it was still far higher than it was a decade earlier. You see, dollars are moving down fast against gold.

How should you play it?

There is a high likelihood that inflation will someday hit the CPI. It is already hitting asset prices. Buying gold stocks is one way to protect yourself against potential inflation, since gold companies have leveraged exposure to the metal. One company that everyone should own is **Franco-Nevada** (TSX:FNV)(NYSE:FNV). This is a no-brainer investment that is a great way to play gold prices.

The best part about Franco-Nevada is the fact that it does not have any debt. When hard times hit the sector, as they did in the mid-2010s, companies without debt are able to take advantage of the downturn. Franco-Nevada used its pristine balance sheet to buy future royalty streams on the cheap when companies were desperate for cash. Now that gold has come up, these companies are pumping cash back to Franco-Nevada.

It also has a diversified royalty base in multiple assets. Although most of its assets are still in gold, Franco-Nevada also took advantage of the commodity downturn to increase its royalty exposure to other assets like oil and gas. These positions are relatively small, but they are opportunistic and show the ability of the management team to act when everyone else is running away.

Finally, Franco-Nevada has a small but solid dividend. The dividend has grown for years and is paid out of free cash flow. The company raised the dividend by 4% in May. The current yield now sits at about 0.70%.

The Foolish takeaway

Don’t let the news fool you into thinking that there is no inflation. The price of gold indicates that inflation actually raged over the past couple of decades. It hasn’t hit the CPI yet, but if it does, you want to be prepared. Owning a strong gold company like Franco-Nevada will help you protect and grow your wealth if inflation becomes more apparent.

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Date
2025/08/17
Date Created
2020/07/17
Author
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