Momentum Investors: Should You Buy Gold Stocks or Bitcoin Now?

Description

The price of gold just topped US$1,900 and is on track to carve out a new record high. Bitcoin, meanwhile, has doubled off the March low.

Momentum investors want to know if gold or the digital currency is the better way to go today. Let's take a look at the current situation to see why this might be a good time to get out of Bitcoin and shift funds to gold stocks.

Gold vs. Bitcoin

In 2017, Bitcoin rallied from US$1,000 to nearly US$20,000. The strongest part of the move occurred through the end of the year, with the digital currency soaring from about US$3,700 in mid-September to the peak above US$19,600 about three months later. Bitcoin then plunged through most of 2018. A year after hitting the record high, it sat around US$3,200.

Gold moved in the other direction in the last few months of 2017, falling from US$1,350 in early September to US$1,250 in the first part of December that year. Some pundits say the drop in the price of gold partly occurred as a result of investors selling their gold positions to trade to trade the Bitcoin rally.

This year, both gold and the digital currency are moving higher. Bitcoin started 2020 near US$7,200. It fell to $5,000 in March and trades near US$10,000 at the time of writing. Gold began the year around US$1,520. It dipped below US$1,500 in March before moving higher in the past four months.

Are gold stocks more attractive than Bitcoin?

Younger investors might feel more comfortable investing in Bitcoin, but the big money will likely favour gold.

Why?

Many seasoned investors still don't trust digital currencies. They aren't comfortable with the market and feel it is both unsafe and too volatile to warrant big bets. The meltdown off the 2017 high and the numerous reports of digital currency theft make many older investors nervous.

Gold, however, has been around for a very long time. Central banks hold massive gold reserves and continue to buy the yellow metal. Gold is generally viewed as a safe haven when financial and geopolitical risks accelerate.

Negative interest rates and trade tensions had already put a tailwind behind gold in the last half of 2019. The COVID-19 pandemic added to the volatility and uncertainty. The World Gold Council said its 2020 Central Banks Gold Reserves survey indicated 20% of central banks plan to increase gold reserves over the course of the next year. That's up from 8% in the 2019 survey.

It's true that central banks are curious about how digital currencies might be useful. They also fear the risks digital currencies might pose to global financial stability. As such, they are unlikely to build significant Bitcoin reserves.

Momentum play

Momentum investors should probably go with gold miners today.

The share prices of many of the top gold mining companies appear cheap right now, despite their strong moves over the past year. As an example, **Barrick Gold** trades near $38 per share. The stock was above $50 the last time gold hit US$1,900, and the company is arguably in much better shape today than it was nine years ago.

Barrick Gold could potentially exit 2020 with zero net debt, and investors should see another dividend increase in the coming months. If gold holds or extends its 2020 gains, Barrick Gold could be a free cash flow machine in the next few years.

Bitcoin could certainly surge back toward $20,000 in the coming months, but I would stick with gold right now as a momentum play.

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Date
2025/08/28
Date Created
2020/07/27
Author
aswalker