



Gold Stocks vs. Tech Stocks: Where Should You Invest \$5,000?

Description

Which sector should you invest your \$5,000 today: gold stocks or tech stocks? Investors are deciding which way the future is going to go, at least over the next couple of years. If you take away the noise, there is a clear winner between the two sectors. I'm going to tell you what that sector happens to be.

Sector fundamentals

In this case, I will give both sectors high points. Online retail was already growing before the pandemic lockdowns and exploded during. Gold [benefits from uncertainty](#), a lower U.S. dollar, and lower interest rates. There is definitely uncertainty, and all the money-printing seems set to drive the dollar lower.

Just look at stocks of the online retailer **Shopify** ([TSX:SHOP](#))([NYSE:SHOP](#)) and the gold miner **Agnico Eagle Mines** ([TSX:AEM](#))([NYSE:AEM](#)). Both have had excellent moves so far this year on the backs of the fundamentals. Agnico is up over 100% since the March lows, and Shopify is up more than 300%. The moves are reflective of investors' faith in the stocks' strength and future prospects.

Valuation

At the moment, gold stocks and tech stocks look very similar on a trailing earnings basis. Both seem fairly expensive in terms of price to earnings (P/E). Continuing with our example, Agnico Eagle has a trailing P/E ratio of 43 times trailing Q1 2020 earnings. Shopify is so expensive that it does not have a P/E given that it still posted an earnings loss in Q1 2020. The point is not that one is relatively cheaper, but rather that both are expensive on a trailing basis.

The difference comes from their revenue sources. As times become more uncertain and the dollar loses value, gold will increase in price, driving Agnico's earnings higher. Shopify's [revenue comes from](#) businesses and people spending money on those platforms. If people stop spending due to poor economic conditions and the government stops handing out cash, revenues will decrease. Tech stock valuations are going to get more expensive, regardless of share price.

Dangers

The biggest dangers facing the gold industry are a strong American dollar, rising interest rates, and a strong global economy. For at least the foreseeable future, not one of those seems to be a major issue. The only one that might occur is a stronger American dollar, although, at the moment, that doesn't seem to be a big threat. It is certainly possible that gold may fall if there is an upside surprise in all of these conditions, but I would argue that is a long shot.

Tech, however, is very susceptible to a fall. The underlying fundamental, the move towards online markets, is known by everyone. It is touted by the media. People have FOMO (fear of missing out) regarding buying stocks like Shopify. It would not take a whole lot of bad news for the price to fall substantially.

One fundamental, though, lower interest rates, is likely to be around for a while. It is entirely possible that stock prices could be held up by sheer inflation, I suppose, although the dollars used to buy that stock could be worth less, as inflation takes its toll. In the end, then, would your investment be worth more in real terms?

The bottom line

There are good fundamentals underlying stocks at this moment, both for tech and for gold. However, the risks for a negative downward move seem to be tilted towards tech, while the risk of a positive move is tilted towards gold.

I'm not saying you should sell all your Shopify and buy Agnico. What I am saying is that it might be a good idea to lock in some tech gains, even a small amount, and move it into a gold stock. That way, you can still benefit from tech if it continues to rise and yet capitalize on gold's potential should gold stocks move higher.

If you don't own either and want to invest your \$5,000, I would choose gold over tech. There is a greater positive upside risk at the moment. Therefore, you have a better chance to make more money buying gold stocks than tech going forward.

CATEGORY

1. Investing
2. Tech Stocks

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:SHOP (Shopify Inc.)
3. TSX:AEM (Agnico Eagle Mines Limited)
4. TSX:SHOP (Shopify Inc.)

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