Investing in TSX Gold Stocks? Do This 1 Crucial Thing 1st

Description

There should be little doubt that investors should be leafing through their recession playbook right about now. Investors buying shares in gold miners have a playbook of their own. Today, let's consider a few ways to make that long-term position in gold miners really pay off.

The return of value investing

2020 was a bad year to start buying shares in gold miners if decent value for money forms the basis for your financial strategy. Some of the best names in this space have seen steep share price appreciation in the last 12 months. Now, some of this sudden growth is supported by a longer-term higher gold price thesis. And some of that is in turn supported by uncertainty in the markets.

But some of gold's 2020 bull run can be explained by a type of pandemic-fed ebullience. It's the same phenomenon that has seen airline stocks rocketing and bankrupt businesses generate zombie momentum. Against this backdrop, gold has become an upside generator of choice for the pandemic generation.

But never mind the day traders. Gold is a solid investment for times of great economic uncertainty. It has an ancient background as a cultural and economic stabilizer. Investors interested in just how far back the commodification of the yellow metal stretches have a rabbit warren of history awaiting them. But gold also has a bright future.

Investors seeking standout growth names should take **Franco-Nevada**, for instance. This world-class streamer is looking at an estimated 40% annual earnings growth for the next one to three years, for example. The benefit of adding a royalty and streaming pick to a portfolio is that it spreads mining and production risks, massively reducing their impact to the investor.

But the long-term investor also needs to look at market ratios. Would-be shareholders may also want to ask whether they want some regular passive income with their gold investments. Some gold stocks are still reasonably valued, while others pay incentivizing dividends. For investors looking to lock in super yields, but also leaving plenty of room for growth, buying bargains is key to a "forever investing" strategy.

Check that gold stock's market fundamentals

This is why names like **Newmont** (TSX:NGT)(NYSE:NEM) stand out in particular. Newmont is good value for money, with market ratios that undercut the Canadian metals and market sector. Take for example its P/E of 15 times earnings versus the sector's 28. A P/B of 2.5 times book is competitive for the sector. Newmont's dividend payout ratio is also very low at just 12%, meaning that its distribution is both secure and wide open for growth in the long term.

Keeping an eye on market ratios can help a long-term investor when deciding on companies to go super long on. By buying the best-valued gold stocks on the TSX, stockholders can maximize returns both in terms of capital appreciation and regular passive income. Newmont is an especially good choice as a large-cap gold giant selling at an attractive price. It helps that its balance sheet health and track record are also exemplary.

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