



Warren Buffett Just Bought Barrick Gold (TSX:ABX) Stock

Description

A lot of people were surprised that Warren Buffett's **Berkshire Hathaway** bought shares of gold miner **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) in the second quarter.

Generally, Buffett isn't a believer in gold as an investment, because the asset doesn't produce anything. He notes that people buy gold hoping that someone will pay more for it later.

In 2011, there was a bubble in gold. It was a time of fear, as the global economies were coming out of a recession from a global financial crisis. In [Berkshire Hathaway's 2011 annual report](#), Buffett wrote, "Admittedly, when people a century from now are fearful, it's likely many will still rush to gold." In the seven years that followed, gold underperformed.

Most of the time, Buffett prefers to invest in productive assets, like "businesses, farms, or real estate. Ideally, these assets should have the ability in inflationary times to deliver output that will retain its purchasing-power value while requiring a minimum of new capital investment."

Some people might be scratching their heads as to why Buffett would buy Barrick Gold after the stock has roughly doubled since 2019.

What facts have changed to trigger Buffett to buy Barrick Gold?

Central banks around the world have been printing unprecedented levels of money. As a result, fiat currencies are depreciating faster than normal.

There's also fear building up in the global markets. Many parts of the economy have been disrupted by COVID-19, but particularly businesses in the hospitality and tourism industries. Yet, interestingly, the North American stock markets are trading at or near their all-time highs.

Putting Buffett's gold-stock buying in perspective

Berkshire Hathaway bought Barrick Gold as a new position in Q2. Specifically, the position was worth close to US\$564.6 million at the market close on Friday.

Notably, though, Barrick Gold stock appreciated more than 8% during after-market trading from the news that Berkshire bought a meaningful position.

In reality, this more than half-a-billion investment is nowhere near Berkshire (and its businesses) cash position of more than US\$146 billion (25% in cash and cash equivalents and 75% in short-term investments in U.S. Treasury bills).

Moreover, the Barrick position is only 1.18% of Barrick and 0.28% of Berkshire's stock portfolio.

So, it's too much to say Buffett is bullish on gold. Rather, it's better to say that he is using gold as a hedge for his investment portfolio.

During the quarter, Berkshire also added shares in **STORE Capital**, **Suncor Energy**, and **The Kroger**. STORE and Suncor are both still down meaningfully year to date and could be better value buys.

The Foolish takeaway

It's still [a bull market for gold stocks](#), as the world's central banks continue to print more and more money. Gold miners like Barrick Gold should continue to do well, as the spot price of gold remains high with some experts predicting prices of US\$3,000 or even US\$4,000 per ounce.

In the first half of the year, Barrick's revenue and EBITDA, a cash flow proxy, increased 29% and 58%, respectively, year over year. Its all-in costs per ounce were US\$969 versus the realized gold price of about US\$1,657. The gold price is beyond US\$1,900 at writing.

Investors buying gold stocks should do better than buying gold bullion, because the former pay dividends and is leveraged to gold prices.

Right now, Barrick Gold is a small holding for Berkshire Hathaway. So, it has lots of room to grow its gold exposure should gold prices continue to rise.

From Friday's market close of US\$26.99, Barrick stock had 21% near-term upside potential, according to analysts' average 12-month price target.

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