



Warren Buffett Bets on Gold: Should You Follow Suit?

Description

Gold prices soared to record levels in July. At the time, I'd discussed why investors should continue to [have faith in precious metals](#). Meanwhile, this also indicated that there was still considerable anxiety when it came to the broader market and economy. Today, I want to discuss Warren Buffett's big and somewhat surprising bet on one of the biggest players in the gold mining space.

What is behind Buffett's sudden change of heart? Moreover, should you follow in his footsteps? Let's dive in.

Warren Buffett: Why the change of heart on gold?

In early 2019, Warren Buffett was critical of investors who were bullish on gold and bearish on the long-term prospects of the United States economy. "The magical metal was no match for the American mettle," he wrote. However, his comments should be taken in context. Warren Buffett correctly pointed out that the **S&P 500** had outperformed the spot price of gold in the modern era. That does not mean that gold does not hold value as a hedge.

Buffett's company **Berkshire Hathaway** recently added a \$562 million stake in **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX). Shares of Barrick Gold shot up 11% on August 17 in response to the news. It is now trading close to its 52-week high.

It is important to note that Warren Buffett may not be behind the purchase itself. Investors and analysts tend to blend Buffett and Berkshire together. However, Buffett's investing lieutenants Ted Weschler or Todd Combs could be behind the purchase. Regardless, Berkshire has made a big purchase in one of the largest gold producers in the world. The question is, should investors follow suit?

Should investors follow suit and pour into this sector?

Earlier this month, I'd discussed why some of Warren Buffett's [favourite indicators](#) suggested that a market crash may be imminent. Gold has proven to be one of the most dependable safe havens.

However, gold equities are also just as susceptible as the broader market to periods of severe volatility.

Shares of Barrick Gold have now climbed 65% in 2020 as of close on August 17. The company released its second-quarter 2020 results on July 16. Unsurprisingly, it has had a strong start in the first six months of the fiscal year. Group gold production in the year-to-date period reached 2.4 million ounces, at the midpoint of its 4.6 to 5.0 million guided range.

Warren Buffett is a major proponent of value investing. That involves targeting and buying stocks at less than their intrinsic value. Barrick Gold has had a phenomenal year so far, but it still fits the bill for value investors. This top producer is reliable and possesses an excellent balance sheet.

Moreover, the stock last had a price-to-earnings ratio of 12 and a price-to-book value of 2.4. This puts Barrick in attractive value territory relative to its industry peers.

Gold has bounced back quickly from its early August dip. Fortunately, Barrick still offers favourable value for those looking to follow in the footsteps of Warren Buffett's company.

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