



## Buy Alert: Warren Buffett Bets on This Canadian Gold Stock!

### Description

According to **Berkshire Hathaway's** (NYSE:BRK.A)(NYSE:BRK.B) recent 13F SEC filing, there is a surprising addition to the company's portfolio. Berkshire Hathaway now owns 1.2% or 20.9 million shares of **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) worth US\$628.4 million.

While this holding accounts for 0.3% of Berkshire's total portfolio, the presence of a gold stock has surprised Warren Buffett's followers. Buffett has historically regarded gold and other precious metals as unproductive assets.

These assets don't generate income or pay dividends and their value is [derived on the assumption](#) that someone is willing to pay a higher price in the future. Further, gold is primarily used to make jewelry and does not have widespread industrial demand compared to copper and steel.

However, Warren Buffett is not entirely responsible for Berkshire's investments. Alternatively, Barrick Gold is a gold mining company and is a business that mines the yellow metal.

## Barrick Gold stock is up 65% in 2020

Shares of Barrick Gold are trading at \$39.6, which means it has returned 65% in 2020. The stock is up over 200% since it bottomed out in March amid the COVID-19-led sell-off. In the last five years, the stock has crushed market returns and has gained a massive 277%.

Shortly after Berkshire's holdings for June 2020 were public knowledge, Barrick Gold stock rose by an impressive 11%. So, what has driven this impressive rally in Barrick Gold and peers?

One of the most important metrics for gold miners is the all-in sustaining costs (AISC). The AISC metric is the cost associated with mining operations and maintenance. In Q1, Barrick Gold's ASIC stood at \$950 an ounce while the price of an ounce of gold was about \$1,530. This means Barrick was generating close to \$600 per ounce of gold in profits.

Now with gold prices reaching \$2,000 an ounce, Barrick Gold is making over \$1,000 an ounce. So,

when gold prices rose by 30%, Barrick's profit margins were up 80%. While there are other costs for the company, we can see how rising gold prices benefit mining companies.

## Why this Warren Buffett pick has enough upside potential?

Barrick is one of the world's largest gold miners. Gold is considered as a store of wealth when economic uncertainty looms large. Federal banks have lowered interest rates to pump money into the economy and quantitative easing measures will also weaken the U.S. dollar.

A sluggish economy, coupled with a low interest rate environment and a weak currency, make investing in alternative classes like gold extremely attractive right now. Further, gold bull markets have historically been elongated which suggests that gold prices can continue to touch record highs in the upcoming decade.

Barrick Gold has managed to [strengthen its balance sheet](#) in recent years and aims to reduce net debt to zero by the end of 2020. Rising profit margins and cash flows have helped the gold mining giant to increase dividend yields by 14% in the recent quarter.

## The Foolish takeaway

The market-beating gains in gold stocks including Barrick suggest that investors are worried about the economic impact of the COVID-19.

While there are several issues plaguing global economies, gold mining stocks provide you with diversification in case you expect markets to crash again.

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araghunath

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