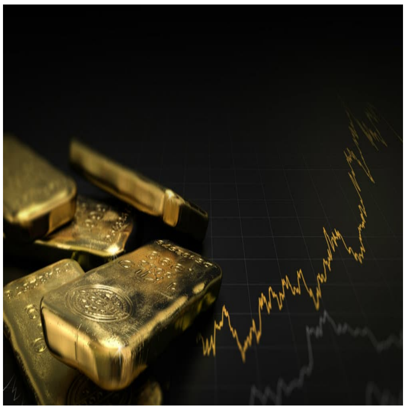

Gold Price: Here’s Why Investors Should Buy Gold Stocks on the Dips

Description

Gold has pulled back from its record highs.

Where we go next is anyone’s guess, but investors who missed the big rally this year might want to consider buying the latest dip to get exposure for their RRSP or TFSA portfolios.

Gold price momentum

Gold started 2020 near US$1,525 per ounce. It hit a record closing high of US$2,069 on August 6, but slipped back below US$1,925 by early last week. Profit taking appears to be done, as the past few days saw bargain hunters enter the market. Gold sits around US$1,975 at the time of writing and should move higher in the coming months.

Why?

Most of the key drivers of the gold rally over the past 16 months remain in place.

Trade disputes

Gold rallied through the second half of 2019 on concerns connected to the China-U.S. trade dispute. The tariffs hurt major industries in both countries and threw a wrench in the wheel of the global supply chain. The announcement of a phase-one agreement did little to calm the market.

With the U.S. election just around the corner, it is possible the U.S. could announce a wave of new measures targeted at China and other trading partners. The new 10% tariff on Canadian aluminum is a good example. This isn’t going to ease fears that a global economic recovery could take years.

Gold tends to catch a tailwind when investors seek a safe place to park money. The trade winds should continue to boost the momentum for some time.

U.S. dollar weakness

Gold trades in U.S. dollars. When the greenback loses value against a basket of other developed-market currencies the price of gold tends to move higher.

The U.S. dollar index continues to slide. At the time of writing, it sits near a 12-month low around 92 compared to 102 on March 20. A number of factors can contribute to the dollar's decline, but one thing gold bugs have warned about for years could finally be occurring.

Fiat currency is not backed by a physical commodity, such as gold, so it only has value if the market believes it is worth something.

There is a risk that all the money printing going on around the world could be finally shaking the faith markets have in the ability of central banks and governments to right the ship.

Inflation is not currently an issue, but some pundits say it is only a matter of time before hyperinflation arrives in developed economies. Who knows what will happen in the next decade, but the decline in the U.S. dollar might have room to run.

Even if inflation isn't a threat, the American dollar might still drop significantly. A U.S. dollar bought CAD$1.45 earlier this year. Right now, it is down to CAD$1.31. A quick look back at what happened after the Great Recession might be an indication of where we could be headed. The two currencies traded at par in early 2013.

Interest rates and bond yields

Gold tends to move higher when interest rates and government bond yields fall. Central banks continue to cut rates in an effort to boost their economies. In some countries, government debt trades at negative yields. This makes no-yield gold start to look pretty good.

Gold stocks

Stocks of gold mining companies normally move more than the price of the yellow metal. That's probably why Warren Buffett's **Berkshire Hathaway** recently made a big bet on gold through a large stake in **Barrick Gold** stock.

The fact that Warren Buffett is bullish on gold can impact the market. The revelation of the purchase of Barrick Gold shares briefly moved the stock and gold price higher. Buffett has historically taken a negative view on gold, so his change of heart, or at least that of Berkshire Hathaway, suggests a strong bullish sentiment over the medium term.

The bottom line

Volatility should be expected, but the case for gold going much higher is quite strong. If you are underweight gold in your portfolio, you might want to take advantage of the pullback to boost the position.

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