



Warren Buffett: Has Barrick Gold (TSX:GOLD) Become a Must-Buy?

Description

The most [remarkable](#) Warren Buffett move this year, I believe, is his decision to initiate a stake in premier gold miner **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD), going against the man's previous words of wisdom. Indeed, his decision to go for gold is a sign of the times.

We're in a rock-bottom interest rate environment, with a growing threat of inflation given the [unprecedented](#) amount of monetary stimulus. Bonds are the most unrewarding they've ever been, and cash, a risk-free asset, has arguably never looked this risky.

Unprecedented times call for unprecedented moves. Just ask Warren Buffett

The U.S. Federal Reserve is committing to keeping interest rates lower for longer, even if it means letting inflation get out of hand. Such a commitment by the Fed, I believe, is not only a green-light to purchase equities amid this crisis, but also a red flag for investors heavy in fixed-income securities, cash, and cash equivalents.

The threat of rapidly-rising inflation is real, and it's this kind of unprecedented environment that has caused Warren Buffett to own shares of a miner of the shiny metal that he's slammed ad nauseam in the past.

This pandemic-plagued environment is as unpredictable as it is unprecedented. And some risks extend beyond the world of "risky" securities. A worsening of this pandemic could cause the Fed to steer into uncharted territory, with negative interest rates for which there are no historic comparables as far as the American market is concerned.

Negative interest rates sound scary. Even the more seasoned economists are uncertain as to what it entails over the longer-term. While spooky, Warren Buffett is not afraid of a negative interest rate environment. He acknowledges that things could get pretty weird in such an environment, but doesn't think it's necessarily ominous.

In a normalized environment, there's no question that Warren Buffett's prior words on gold still hold up. It's an unproductive asset that's unlikely to outdo equities over the long run. In this weird environment we find ourselves in, with near-zero rates that could go negative and the rising threat of inflation, it becomes more apparent that gold is a far better lowly-correlated alternative investment than "risk-free" securities.

And Barrick Gold, as I've mentioned in many prior pieces, is the gold standard when it comes to gold miners. The well-run operator hiked its dividend modestly, and unlike physical bullion itself, shares of Barrick reward investors with a growing 1%-yielding dividend that's resilient in the face of mounting pandemic-related uncertainties.

Barrick Gold stock has a "Warren Buffett premium" slapped on, but is it still worth buying?

While ABX stock isn't cheap, after having surged on absurdly-high gold prices (just shy of US\$2,000 at the time of writing), I do think the gold miner is a must-buy given the inflationary risks brought forth by this unprecedented pandemic-plagued environment. While gold is hardly risk-free (Barrick stock could crash if gold pulls back toward its mid-cycle price levels), I do think it's a vital component to any sufficiently-diversified portfolio.

Yes, gold miner stocks can be volatile. Still, between running the risk of wealth-erosion through the insidious effects of inflation, I'd say the volatility is worth bearing, especially since you'll get paid for your patience while being able to profit from continued appreciation in the price of gold. Gold at US\$3,000 sounds unprecedented, but count me as unsurprised if the asset climbs to such heights given 2020 is all about unfathomable, unprecedented moves.

Foolish takeaway

Warren Buffett's initiation of a position in Barrick, I believe, is a massive buy signal. If Barrick pulls back toward Buffett's cost basis (possibly in the low \$30 levels), I'd get ready to back up the truck. In the meantime, investors lacking in gold exposure should get some skin in the game at today's prices, as they look to scale into a position over time. For everyone else, Barrick is a must-add to the pullback shopping list.

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Date

2025/08/23

Date Created

2020/09/07

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