Market Crash 2.0: Is it Time to Invest in Barrick Gold (TSX:ABX)?

Description

While the markets have moved higher this week, there is a lot of uncertainty surrounding investors. The V-shaped recovery since March has surprised Bay Street experts who think the market is not in sync with the economy, as Canada's unemployment rates continue to remain high amid sluggish consumer demand.

Warren Buffett-owned **Berkshire Hathaway** recently published its 13F filings, and it was quite evident that the Oracle of Omaha is preparing for a market crash.

Berkshire's cash balance stands at a staggering $146 billion at the end of Q2, up from $128 billion at the end of 2019. Further, Buffett exited airline stocks earlier this year, as the capital-intensive sector was burning millions of dollars in cash with negligible air traffic. Berkshire also sold positions in **Goldman Sachs** and trimmed its holdings in **Wells Fargo**.

But Warren Buffett increased his stake in Canada's energy giant **Suncor** and invested in gold mining company **Barrick Gold** (TSX:ABX)(NYSE:GOLD). According to Berkshire's filing, it owns 20.9 million shares of Barrick Gold worth US$629 million, indicating a 1.2% stake in the company.

Barrick Gold is the ultimate defensive buy

Warren Buffett has historically refrained from investing in gold, as he regarded precious metals as unproductive assets that don't generate income or pay dividends, and that their value is derived on the assumption that someone might pay a higher price in the future.

However, Barrick Gold is a mining stock that generates robust cash flows, has a strong balance sheet, and pays a dividend. Further, as equity markets are expected to be volatile in the near-term, and with bond yields nearing record lows, investing in gold mining stocks will also diversify your portfolio.

While gold prices have risen from $1,500 an ounce in December 2019 to over $2,000 an ounce in August, there is still room for prices to move higher. Global economies are listless, and quantitative easing measures will weaken the U.S. dollar, which has an inverse relationship with gold.

Gold bull markets also last multiple years. Gold prices were up 1,500% between December 1969 and January 1980 and gained 600% between August 1999 and August 2011. In the last five years, prices are up 80%.

Miners benefit from rising prices

Gold miners are able to increase operating leverage significantly with a small uptick in gold prices. For example, one important metric for gold miners is the all-in sustaining costs (AISC). This cost is associated with mining operations and maintenance.

In the first quarter, Barrick Gold’s AISC was $950 an ounce, while gold was priced at $1,530 an ounce. So, Barrick effectively generated around $600 in profits for mining an ounce of gold. If gold prices reach $2,000 an ounce, Barrick will generate over $1,000 in profits for each ounce mined.

We can see if gold prices rise by 30%, the company’s profit margins rose by 80%. There are other costs that the company will incur, but we get an idea of how rising gold prices are beneficial to mining companies.

The Foolish takeaway

Barrick Gold has returned 370% in the last five years and is poised to move higher due to the above-mentioned reasons. If you are bearish about traditional stocks, buying defensive companies will help you outperform the broader market and diversify your portfolio as well.

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