



Warren Buffett's Berkshire Hathaway Bought This Canadian Stock: Should You?

Description

Investors closely follow Warren Buffett's stock purchases to look for opportunities.

Through his company **Berkshire Hathaway**, Warren Buffett has purchased dozens of companies and taken large positions in others over the years.

His successful strategy of finding value and holding positions for decades made him one of the wealthiest investors on the planet. Berkshire Hathaway's Q2 2020 13F filing recently revealed an interesting new Canadian bet.

Warren Buffett Buys Barrick Gold stock

Berkshire invested US\$563 million in shares of **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) in Q2 2020. The position is brand new for Berkshire, and the move surprised many long-term Warren Buffett fans.

Why?

Buffett historically avoided gold and gold miners. As a commodity, it isn't really all that useful.

The yellow metal offers limited value for commercial use outside of the jewelry industry. Central banks and some investors treat it as a safe-haven investment and as an alternative to holding government bonds.

Gold bulls say gold serves as a hedge against inflation as well, but that theory regularly gets disputed.

Why is Warren Buffett suddenly interested in Barrick Gold?

The best argument falls in line with his traditional strategy of buying value.

Barrick Gold made great progress in recent years on a turnaround effort that reduced debt and shifted the firm back to being a lean operator focused on high-quality assets that generate strong returns and

free cash flow.

Gold rose from US\$1,500 per ounce a year ago to above US\$2,000 in early August. The September pullback brought the gold price back to US\$1,900. Barrick Gold anticipates long-term output will be around five-million ounces per year. This means a sustained US\$400-per-ounce jump in the price of gold adds US\$2 billion in cash.

Barrick Gold's [Q2 2020 results](#) show the impact. All-in sustaining costs came in at US\$1,031 per ounce. The company generated free cash flow of US\$522 million in the quarter and raised the [dividend](#) by 14%. Net debt dropped to just US\$1.4 billion.

A few years ago, Barrick Gold risked being buried under US\$13 billion in debt. By the end of this year, Barrick Gold could report zero net debt.

Gold is on a roll, and analysts anticipate higher prices in the next few years. Trillions of dollars of government debt, including that of Japan and several European countries, trades at negative rates. There is speculation the U.S. could join the club. This makes no-yield gold quite appealing and should boost demand.

Should you buy Barrick Gold stock today?

The recent dip in the share price might be a good opportunity to join Warren Buffett as a Barrick Gold investor.

The stock trades near \$37.50. That's up significantly year to date but cheap compared to the \$40 it hit in early September. Investors should see strong numbers come out in the Q3 results. That could send Barrick Gold to a new 2020 high.

Looking ahead, tailwinds remain in place. Expect volatility to continue, but the price of gold should trend higher through 2021.

Barrick Gold is in great shape and has the potential to be a free cash flow machine. If you have some cash on the sidelines and are underweight gold in the portfolio, Barrick Gold stock deserves to be on your radar.

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Date

2025/09/09

Date Created

2020/10/01

Author

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