Was Warren Buffett Right in Reducing His Stake in Barrick Gold by 42%?

Description

Warren Buffett has been one of the top investors in the equity markets for almost six decades. So, whenever the Oracle of Omaha buys or sells a stock, it is big news for investors. Warren Buffett-owned **Berkshire Hathaway** recently reported its 13F filings, which revealed that the company reduced its exposure to **Barrick Gold** (TSX:ABX)(NYSE:GOLD) by 42% in Q3.

Investors were surprised when Berkshire Hathaway picked up a position in the gold mining company in the second quarter, as Buffett is not a fan of the lustrous metal. So, is Warren Buffett right in reducing his stake in Barrick Gold?

Gold stocks remain a safe bet amid rising volatility

There are multiple reasons to remain bullish on gold. Gold prices have been rising in the last five years and should continue to move higher in the upcoming decade. As well, Gold prices have an inverse relationship to interest rates and the U.S. dollar. We know that interest rates are near record lows, while the U.S. dollar is under pressure due to quantitative easing policies.

Further, global macro uncertainty will contribute to stock market volatility, which will lead investors to look at safe investment havens like gold. Investors also need to know that gold bull markets are elongated and generally last over a decade.

Physical gold breached a record high price of $2,000 an ounce in 2020 and might even touch the $3,000 mark by 2021, according to industry experts. The Federal Reserve is unlikely to increase interest rates in the near term, and when you account for $17 trillion in negative investment-grade debt in the U.S., it makes perfect sense to remain bullish on gold prices.

Barrick Gold is a top mining stock

Another way investors can benefit from rising gold prices is by investing in mining companies such as Barrick Gold. It has focused on improving its balance sheet in the last few years, and its net debt fell by

25% in Q2. Further, it is not facing any major debt maturities for another 13 years. In Q3, Barrick reduced net debt by 71% on a sequential basis and reported record cash flows of $1.3 billion.

It will end 2020 with an AISC (all-in sustaining costs) of less than $1,000 per gold equivalent ounce (GEO). This means Barrick Gold's cash operating margin will be over $900 per GEO, which will help it improve cash flows and profit margins in the upcoming quarters.

Barrick Gold aims to produce over 500,000 ounces a year in tier-one mining assets and deliver total cash costs per ounce in the lower half of the sector's curve.

Its focus on operating large mines will help Barrick Gold accelerate economies of scale. The company expects output to average five million ounces of gold per year through 2029 and estimates AISC to decline from $1,000 to $800 by 2024.

The Foolish takeaway

Barrick Gold's rock-solid balance sheet and top-tier mining portfolio make the stock a top pick, especially if one is bullish on gold prices. Further, its high operating leverage gives it enough room to withstand a minor decline in the commodity's price.

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