Is It a Good Time to Buy Gold Stocks?

Description

Gold is the ultimate store of wealth. We've been hoarding the yellow metal ever since we figured out how to extract it from the earth. As an investment, in times of uncertainty, investors flock to the perceived safety of precious metals. In case you haven't noticed, while markets have battled with uncertainty and the pandemic, gold has quietly shot up in 2020. This has many investors wondering if this is a good time to invest in gold stocks.

Gold stocks are interesting, as their performance is tied to the price of a volatile commodity. In fact, you could argue that gold prices are linked to the level of fear on the market. That hardly sounds like a promising long-term investment, does it?

Let's take a moment to make the case for one gold miner- **Barrick** (TSX:ABX)(NYSE:GOLD)

Volatility is (maybe?) still king

When Warren Buffett's **Berkshire Hathaway** bought into Barrick, many viewed that investment as a longer-term play given the volatile nature of a market still grappling with a pandemic. In fact, Barrick's stock surged by double-digits following that move.

That view changed recently, as Buffett slashed his investment in Barrick by 42%. That's not to say that Barrick isn't a good investment (more on that in a moment), but it's more that the Oracle of Omaha has moved on to other investments (i.e., pharma). Coincidentally, November has been riddled with a series of vaccine-related good news.

In short, news of multiple highly effective vaccines has helped stem the uncertainty in the market. This has led the stock to decline by over 20% in the past three-month period. Also noteworthy is that even with that recent dip, Barrick is still up over 20% year to date.

Should you buy gold stocks?

As intriguing and positive as the vaccine announcements were, inoculating the global population (or at least to herd immunity levels) is something that will take months, if not years. In other words, the volatility we've seen will continue for the moment. This, along with lower interest rates and a weak greenback, will drive gold prices higher.

For prospective investors, this is a win-win situation.

Barrick mines gold at a near-fixed cost. That cost is recouped as the metals produced from a mine are sold on the open market. As long as demand for gold continues to grow, so too will the price of the precious metal.

By way of example, in the most recent quarter, Barrick saw operating cash flow come in at US$1.9 billion, reflecting a whopping 80% bump over the same period last year. The miner also posted a record free cash flow generation in the quarter of US$1.3 billion. On an adjusted basis, Barrick earned US$0.41 per share, reflecting a 78% improvement.

In addition to the positive earnings update, Barrick also announced that debt net of cash came in at just US$417 million, which represents a 71% drop over the same period last year. More importantly, this is significant for long-term investors as just a few years ago the company was straddled with billions of debt.

Adding to that appeal is Barrick's dividend. To be fair, Barrick's 1.6% yield is hardly the best return on the market, but in the most recent quarter, Barrick did provide investors with its *third* uptick this year – this time a 12.5% increase.

In short, investors would do well by including gold stocks such as Barrick as part of a larger, well-diversified portfolio.

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