



Should You Follow Warren Buffett Out of Barrick Gold (TSX:ABX) Stock?

Description

Gold and gold miners like **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) are great buys when prices are low, and everybody on Wall (or Bay) Street is happy and discounting the potential [risks](#) that lie ahead. Like insurance products, you should seek to gain gold exposure on the cheap before a disaster strikes. With the COVID-19 pandemic in full force, with a chance of a severe double-dip recession, gold has been a hot commodity in 2020.

Gold prices rocketed past US\$2,000 before pulling back to around the US\$1,800 mark, where the shiny metal currently sits today. Meanwhile, Barrick Gold stock tanked, amplifying the decline in gold prices. Today, Barrick Gold stock is down over 25% from its September all-time high. With the recent slate of good news (favourable U.S. election result) and the reveal of a handful of safe and effective COVID-19 vaccines, the magnitude of uncertainty has dropped considerably.

With more clarity on the vaccine timeline, a potential 2021 end to the pandemic, and market-friendly moves in Washington (Joe Biden with no Blue Wave and dovish ex-Fed chair Janet Yellen taking the role as U.S. Treasury Secretary), fearful investors are starting to get greedy.

Barrick Gold and gold prices could fall further as uncertainties fade in 2021

While there are still many risks that justify the holding of alternative assets like gold and (or even cryptocurrencies like Bitcoin), most notably, a potential unchecked uptick in the rate of inflation, I'd argue that the price paid for such alternative assets is too high. Despite the implosion of Barrick Gold stock, the appetite for gold and Bitcoin has remained relatively strong, despite the slew of good news events in early November.

Could the Bitcoin rally be dampening the run-up in gold prices? Possibly. Regardless, as we inch closer to the end of this pandemic (which is likely in the cards in mid-2021), a more certain environment could pave the way for a nasty implosion in the demand for pricy alternative assets. If gold prices were to fall back to midcycle prices, I worry that Barrick Gold stock could be headed to the low-

\$20 levels over the medium term.

Now, I still view Barrick Gold as the “gold standard” as far as gold miners are produced. The company has an exceptional management team that’s worthy of a premium and a juicy 1.6%-yielding dividend that makes the gold play far more rewarding than cash or risk-free fixed-income securities in an era of near-zero interest rates. The opportunity cost of holding gold (or gold miner stocks) as inflation and volatility hedges is also absurdly low. That said, one must never lose sight of the price they’ll pay for what they’ll receive.

While you will get a premier management team from Barrick, the firm will still be at the mercy of exogenous events that dictate the price of gold. Commodity price fluctuations, as you may know, are extremely difficult to project, given the numerous variables involved. While gold could continue surging to new heights (possibly US\$2,200), I’d argue that the amount of upside is dwarfed by the type of decline if gold prices were to return to that of midcycle prices (just south of US\$1,300).

Yes, there’s more upside possible for gold, but there’s also a long way down if the curtains are pulled on the asset on the other side of this pandemic.

The Foolish bottom line

While I’m quite bearish on the risk/reward to be had from gold at this juncture, I still think it makes sense for every investor to at least have some (2-5%) exposure to the shiny metal for its hedging benefits and low degree of correlation to equities. If you have no exposure, and you’re keen on obtaining it here because you stand to be severely impacted by a sudden surge in inflation, then Barrick Gold is a solid bet after its recent plunge.

For everyone else, I think [Warren Buffett’s](#) recent trimming of his Barrick Gold stake shouldn’t be ignored by investors, as uncertainties look to fade in 2021.

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Date

2025/08/23

Date Created

2020/12/08

Author

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