Warren Buffett: Has Gold Become a Must-Own Asset?

Description

Warren Buffett shocked the world when he revealed his stake in gold miner **Barrick Gold** (TSX:ABX)(NYSE:GOLD) after years of slamming gold and not being the biggest fan of the capital-intensive mining stocks. Gold is an unproductive asset, and it won't pay you over prolonged periods of time.

Although Barrick does have an attractive dividend policy, with a juicy, growing 1.56% dividend yield at the time of writing, one must be cautious, as a steep pullback in gold prices could easily dwarf the firm's handsome payout.

Sure, Barrick is a best-in-class miner with a brilliant management team, but it's still mining an asset that's subject to wild price fluctuations. Not even the greatest gold miner on the planet can mitigate a potential retracement in gold prices after one of the most uncertain years in history.

Gold may be a "safe-haven" asset, but it comes with big downside risks

It's tough to predict the next move for commodities like gold. There are far too many variables. Buying the asset while uncertainties, risks, volatility, and inflation fears are high will come with a steep price of admission, leaving you at risk should such risks die down for some unknown reason over the medium term.

So, with that in mind, it's not a mystery as to why Warren Buffett has really never been the biggest fan of gold, gold miners, gold proxies, or anything related to the shiny metal. As for questionable gold proxies like Bitcoin, well, we all know the kind of words that Buffett and his right-hand man Charlie Munger had used in describing the popular cryptocurrency.

Unless you're a seasoned commodities trader, it's challenging to evaluate a gold miner like Barrick Gold. Profits could skyrocket in an unforeseen untick in the price of gold beyond the US$2,000 level. At the same time, a retreat towards midcycle gold prices (US$1,200-US$1,300) leaves a lot of downside risk on the table. Unfortunately, it doesn't matter how operationally efficient a firm is if such a decline were to hit.

Warren Buffett trims Barrick Gold stake as we march closer to the pandemic's end

Now that we have several safe and effective COVID-19 vaccines available, the pandemic's end is in reach. Once it ends, a huge layer of uncertainty will be removed from this market, and the appetite for gold could wane. That said, inflation fears could intensify next year, helping gold sustain its high-end price tag. It's tough to know what to expect. With Warren Buffett ditching nearly half his position in Barrick Gold in the latest quarter, though, I'd say all that glitters is not gold.

When you weigh the likelihood that Warren Buffett may not have been the one to hit the buy button on Barrick in the first place (it may have been one of his top associates), it makes even less sense to follow **Berkshire Hathaway** into Barrick Gold, as the stock has been rolling over of late, plunging over 25%, amplifying the modest pullback in the price of gold.

So, has gold (and its miners) become a must-own asset?

Even for Warren Buffett followers, I think the answer is no, not really. At least, not at these heights. While the opportunity costs of holding gold for its hedging benefits are low, given the low risk-free rate, there are serious downside risks involved in an investment with gold prices at the higher end of the range.

That said, if your portfolio has zero exposure to precious metals, Barrick Gold is a go-to play to gain exposure. As a small part of a portfolio, Barrick can be a great hedge, even at these levels. Just make sure you don't buy the stock with the expectation that gold prices will soar to some arbitrary price beyond US$2,200 and that you'll be enriched over the short term. With COVID-19 to be conquered soon, I think the appetite for equities will increase in a big way next year.

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