



Should I Follow Warren Buffett and Buy Gold Stocks?

Description

Many investors have been surprised by Warren Buffett's apparent actions this year regarding gold stocks.

Berkshire Hathaway, for whom the Oracle of Omaha is chairman, purchased around \$500m of shares in gold miner **Barrick Gold** (NYSE: GOLD) earlier this year despite Buffett having a long track record of avoiding investments connected to the precious metal.

After gold's mixed recent performance, do Buffett's apparent actions suggest there is scope to make strong capital growth from gold mining companies in the long run?

Warren Buffett's "purchase" of a gold stock

It's difficult to know whether Warren Buffett was involved in the purchase of shares in Barrick Gold. He does not make all of **Berkshire Hathaway's** investment decisions. Therefore, it seems to be more likely that one of the company's portfolio managers was behind the deal. Indeed, this theory is made even more likely because the size of the transaction was small relative to the company's other holdings. Therefore, Buffett may not have been involved in the decision-making process.

Moreover, since purchasing it, Berkshire Hathaway has sold around 40% of its holding in Barrick Gold. This suggests that it is unlikely to be a long-term change in Buffett's investment strategy. As such, investors may not see him suddenly changing his stance towards the precious metal after a long period of being downbeat about the outlook for gold.

Buying gold stocks today

Of course, gold stocks could have appeal in some cases even if Warren Buffett remains downbeat about the precious metal. The mixed performance of the gold price in recent months means that some gold miners are now trading at relatively low prices.

And while the prospects for the world economy have improved in recent months, threats such as political instability in Europe and North America could mean that defensive assets, such as gold, become more popular.

As such, gold stocks should not necessarily be ruled out by investors when they form part of a diverse portfolio of companies. Certainly, the long-term prospects for gold carry risks. The economic outlook is likely to improve, which may mean that the price of the precious metal comes under pressure.

However, as Warren Buffett has said many times previously, buying high-quality companies at low prices can lead to impressive returns. Gold stocks should not automatically be excluded from that description.

Long-term growth opportunities

Clearly, now could be an opportune moment to follow Warren Buffett's advice regarding the purchase of undervalued stocks. Many sectors continue to trade at low prices despite having strong recovery potential over the coming years. In many cases, their share prices continue to lag their long-term averages because they have failed to recover from the 2020 stock market crash.

As such, now could be the right time to build a portfolio of cheap stocks and hold them over the long run.

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Date

2025/08/24

Date Created

2020/12/15

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