



## This Canadian Stock Is the Best Way to Play Gold Right Now (Hint: Indirectly)

### Description

Investing in gold is a topic that gets a lot of attention on Fool, and rightfully so. Playing gold is not an easy task. At times, this asset class trades as a commodity based on capital flows. Other times, this asset class trades as a pure hedge to currency devaluation or inflation.

Right now, gold is trading in a downtrend after hitting an all-time high earlier last year. With gold still trading around 80% higher than 2015 lows, we could still have a tremendous amount of runway left moving into 2021 and beyond. Looking at previous cyclical bull markets in gold, we could only be in the middle innings of this bull market run. Therefore, we have to ask the question: Which is the best way to invest in gold?

### Royalties tend to do better over the long run

One of the best ways to generate exposure to the price of gold but also generate guaranteed income over time is to invest in royalty and streaming companies. In this space, **Franco-Nevada** ([TSX:FNV](#))([NYSE:FNV](#)) is one of the best stocks in this segment of the market.

One of the knocks against gold miners specifically in recent years has been the notoriously poor capital-allocation history of the mining group. Investing in royalty companies like Franco-Nevada takes a lot of this governance risk out of investing in this sector. Investors in Franco-Nevada don't need to worry about mine-specific risks associated with a single investment. Franco-Nevada provides a range of royalty streams from many high-quality gold miners to produce a stable and diversified portfolio.

The royalty streams Franco-Nevada receives are also independent of operating costs and capital costs, which can eat away at miners' returns. These stocks are more like the financing arm of the growth in the gold sector — an area I like relative to owning the commodity or a single gold miner.

### Production growth a big positive for Franco-Nevada

One of the best aspects of owning a royalty or streaming company is the upside investors get with

production growth. This is an indirect benefit of [rising gold prices](#). The higher gold goes, the more money miners will spend on exploration and mine development. These mines need a significant amount of capital, which is where Franco-Nevada comes in. Royalty companies like Franco-Nevada provide up-front financing for a percentage of future production. As the price of gold rises, this optionality increases in value. This is partly what has caused Franco-Nevada's stock price to trade relatively in line with gold in recent months.

Should gold continue to rise due to a number of tailwinds I see on the horizon, Franco-Nevada could be a key beneficiary. Accordingly, I would encourage investors considering gold exposure to dig deeper into Franco-Nevada and other royalty companies.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## POST TAG

1. Gold
2. investing
3. market

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1. NYSE:FNV (Franco-Nevada)
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**Author**

chrismacdonald

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