



Forget Bitcoin! This Top TSX Gold Stock Is a Much Better Hedge

Description

The rapid rise we've seen in the price of Bitcoin of late has been remarkable. Many have linked this increase to the maturing of cryptocurrencies as an asset class. Specifically, there is a line of thinking that cryptocurrencies like Bitcoin now represent an effective hedge against U.S. dollar depreciation and inflation. Given the nascent nature of this asset class as well as the outsized volatility of cryptocurrencies, I think it's way too premature to make such a finding.

Instead, I think those looking for a way to hedge their portfolios ought to consider gold as a proven vehicle for accomplishing this task. In this article, I'm going to discuss one of my top picks in the gold space. This isn't a gold bouillon-backed company, or a gold miner, for that matter.

Royalties are the “sneaky” way to play gold right now

Franco-Nevada ([TSX:FNV](#))([NYSE:FNV](#)) is a company I've [discussed in the past](#). I've always liked the company's business model, which is why this is a company that has stayed on my watch list for so long. Franco-Nevada is a royalty and streaming company. Essentially, the royalty business revolves around early-stage financing for gold miners. As one might expect, raising money to develop a gold mine can be difficult. After exploring options in the equity markets to raise money, as well as debt options, royalty companies will always be there. These companies provide up-front financing in exchange for royalties on future production.

These royalty contracts are often extremely favourable to the royalty company and are extremely low risk. Unless the gold miner goes under, these royalties will be paid out. Production declines are another possible risk. However, with the price of gold where it is today, Franco-Nevada is sitting pretty. This is because not only will the miners it owns royalties on want to produce as much gold as possible at these prices, but shelved projects that may have been unprofitable at lower gold prices may be coming to the forefront again. This provides some optionality with respect to these future projects, improving Franco-Nevada's long-term earnings potential.

Bottom line

Gold itself has been a difficult asset class to rely on as a hedge recently. Similar to Bitcoin, these “hedges” have not really performed as hedges should in times of difficulty. The decline we saw in both gold and cryptocurrency during the pandemic-driven crash in March was worrisome to me. That said, if I had to choose, I would pick gold. If I had a choice in the gold space, royalties would be the way to go. I think Franco-Nevada offers investors a unique and attractive hedging option right now.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Gold
2. growth
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