



Why Warren Buffett Could Take Barrick Gold Stock on a Parabolic Ride

Description

Warren Buffett's recent portfolio addition of **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) last year took the market by surprise. Indeed, the Oracle of Omaha has not been keen on investing in gold during his ultra-successful multi-decade long investing career.

That said, this divergence from his previous investing mantra is worth investigation. I think Warren Buffett could be coming around in his thinking on gold as an investable asset class. In addition, I think Buffett could be considering the following factors, which could take gold on a parabolic ride in the years and decades to come.

Bull market in gold shaping up

I'm a staunch believer in the idea we've got a long-term bull market in gold on the horizon. Forget being in the middle-innings of a bull market in precious metals. I'm talking about being a year into a multi-decade long run in gold and precious metals.

My thesis is this: we're likely to see U.S. stimulus outpace the rest of the world for quite some time. I think the U.S. dollar could depreciate to levels we haven't seen in decades. Additionally, I think some serious inflation is bound to be on the horizon if we see these scenarios play out.

Gold happens to be an asset that does very well in this environment. If one believes the economy is unable to be maintained without massive ongoing stimulus, gold is an investment worth considering. As well, if there's consensus that we won't see the U.S. dollar maintain its global leadership in terms of currencies, gold is the way to go.

I think there are a tremendous number of long-term factors that make a long-term bull market in gold likely. Accordingly, I think Barrick is a great way to play this space.

Gold miners provide incredible leverage to gold prices

Gold bulls ought to seek out equities that will provide the greatest leverage to rising gold prices. After all, if one thinks we're on the precipice of an impressive run in gold prices, one ought to try to maximize one's exposure.

Gold miners typically carry high levels of leverage, providing investors with outsized returns when gold prices rise. When the price of gold rises, margins increase and cash flows surge. Balance sheets improve, and more cash is available to be distributed to shareholders via buybacks or dividends.

Accordingly, rising gold prices hit the bottom lines of gold miners directly. Thus, a 25% move in gold prices could equate to a 75% or 100% increase in profit to a gold miner, a factor that should drive these equities much higher than the appreciation in the underlying commodity.

Barrick is one of the largest gold miners out there. This is a company with extremely large gold reserves and the ability to increase production for decades to come. For those looking for a long-term play on gold, this is the top company to consider right now.

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