



Warren Buffett: Worried About the Market? Here's How to Hedge

Description

Hedging a portfolio is a good idea if one thinks we're in for rough waters ahead. Indeed, some of the greatest investors of all time have begun to do so.

Warren Buffett's recent foray into **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) has opened the eyes of many investors in this regard. The Oracle of Omaha had previously denounced any investments in precious metals for the longest time. His reasoning? These investments are unproductive and do not provide the growth necessary to really combat inflation. If capital preservation is one's goal, he argued, gold was not a good place to invest.

However, he seems to have changed his mind with respect to gold miners. This portfolio addition was momentous in so many ways. However, I think perhaps the biggest impact I saw was a clear need for a portfolio hedge with upside. Here's where gold miners come in.

Gold miners offer great value and growth opportunity in addition to hedging value

Most investors know that gold is negatively correlated to the U.S. dollar and positively correlated with inflation. The recent central bank stimulus we've seen provides a very bullish environment for gold, in my view.

Indeed, if we see inflation pick up and the U.S. dollar weaken, this is an asset class that will outperform for some time. Accordingly, it's possible that we could be in the midst of a bull market in gold (albeit with a slight pause right now). This could coincide with broader stock market weakness — the definition of a hedge.

Gold miners are undervalued today on a historical basis relative to the price of gold. Investors are essentially able to buy mining companies at a 30-year low based on where gold is trading today. A lot of this has to do with the historically poor capital allocation of the management teams running the show at many mining companies. However, if one is bullish on the balance sheet strength that will

come as a result of higher gold prices, the leverage these companies have can actually be bullish.

Thus, right now, I'm seeing a tremendous amount of upside potential with limited risk in this sector. I think Warren Buffett sees this, too.

Best option in the gold mining space today

I think, hands down, [the best gold miner on the TSX today is Kirkland Lake Gold \(TSX:KL\)\(NYSE:KL\)](#).

This gold producer has some of the best fundamentals I've seen in the sector. Additionally, this is a gold miner with essentially no debt and a massive war chest to use for future acquisitions.

There will be the need for such acquisitions on the horizon, as one of the company's core mines in Australia is nearing the end of its mining life. I think if Kirkland Lake does a good job of adding high-quality reserves to its portfolio at a reasonable price, this is a stock that could really pop.

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