



Warren Buffett: Hedging Isn't a Bad Idea Right Now

Description

Warren Buffett's [recent foray into gold](#) via his purchase of Canadian gold miner **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) was an interesting one, to say the least.

Buffett has steered away from gold during his investing career. Only recently has he ventured into Barrick, adding a position last year. However, since this addition last summer, shares are down approximately 25%. Buffett has also trimmed this position. Accordingly, with gold prices on the decline, there are plenty of negative catalysts for this stock in the near-term.

Here's why I think Buffett will ultimately stick with Barrick.

Gold provides a nice hedge

For investors of any size, hedging can be a good idea if one thinks stocks have run too far, too fast. Right now, valuations are in the nosebleeds from a historical perspective. There's been talk for some time of a real market correction, or even a crash, on the horizon.

As such, being able to stay fully invested, while building cash reserves on the side to buy the dip, has been Buffett's investment philosophy over the years. The Oracle of Omaha has plenty of cash ready to be deployed. However, to avoid trimming his positions too aggressively, pursuing gold miners and other alternative assets acts as a nice hedge if markets turn upside-down any time soon.

Buffett is one of the best wealth accumulators in history, and he knows what he's doing. This position in Barrick is small, and he did trim it. However, he's been trimming a lot of positions lately, and I don't think that's indicative of his thoughts on Barrick's quality at all.

Size and scale matters

Barrick Gold is the largest mining company in Canada, on a number of metrics. In terms of the company's gold reserves, Barrick is also a top-tier player in the gold mining space.

As of the end of 2019, Barrick had more than 70 million ounces of proven and prospective gold reserves in its portfolio. Since then, Barrick has added additional reserves via acquisitions and partnerships, bolstering its long-term growth prospects. The company has been producing at an annual clip of around five million ounces per year. Accordingly, it appears Barrick has at least 15 years or so of production lined up at its current pace of production.

Despite the price of gold dropping of late, we're still well above the levels of a few years ago. Gold producers are pumping out as much production as they can. This is because each ounce produced is so much more profitable than it was just a year or two ago.

Accordingly, I think investors will gravitate toward companies like Barrick with massive gold reserves in the near-term. Acquiring junior miners is getting to be more expensive, so owning a company with tonnes (literally) of reserves is the way to go.

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