Warren Buffett: Why Did He Sell His Gold Stocks?

Description

Berkshire Hathaway (NYSE:BRK.A)(NYSE:BRK.B) recently filed its 13F form with the Securities and Exchange Commission (SEC), and it made some stark revelations about the Oracle of Omaha's investing decisions. One of the most interesting moves was that Buffett decided to exit his position in **Barrick Gold** (TSX:ABX)(NYSE:GOLD) in the quarter that ended in December 2020.

By the end of the previous quarter, Buffett's Berkshire Hathaway held around 12 million shares of the Canadian gold and copper mining company. The news of Buffett exiting the company triggered a massive selloff. Barrick Gold's valuation on the TSX declined by 5.42% between February 16 and February 18, 2021.

Let's take a closer look at Barrick Gold's performance, its outlook, and why Buffett dumped his entire stake in the gold company.

Barrick Gold's performance

Barrick Gold reported adjusted earnings of US$1.15 per share last year — more than twice its adjusted earnings in 2019. The company used these figures to beat analyst expectations by a narrow margin. Barrick Gold also managed to meet its gold production guidance with its stable operating performance throughout 2020.

The higher gold and copper prices also managed to bump up the company's profits, and it ended 2020 with an adjusted EBITDA of 59% compared to 50% in 2019. Its sales for 2020 also soared by 30% to US$12.6 billion — mostly owing to the higher gold prices.

The company's better-than-expected performance in the final quarter for 2020 and its overall returns in the year did not stop the stock from declining after news broke that Buffett exited the company.

Bleak outlook

The economic fallout from COVID-19 raised gold prices and increased its profit margins. However, the pandemic also affected some of Barrick Gold's business operations and increased its operating costs. The company's 2020 results were impressive, despite COVID-19 woes, but its production forecasts did not make a good impression on investors.

Barrick Gold expects its gold production to remain between 4.4 to 4.7 million ounces in 2021, lower than the 4.76 million ounces it produced last year. The company expects its copper production to remain between 410 to 460 million pounds compared to the 457 million pounds in 2020.

With gold prices decreasing in a recovering economy, Barrick's expectation of operational costs to remain high is pointing to a bleak outlook for the gold producer this year.

Why Buffett sold Barrick

Buffett has never been a fan of Bitcoin or the rare yellow metal, so Berkshire's investment in Barrick Gold came as a surprise in and of itself. However, Buffett did not buy gold itself. Instead, he invested in a company that relies on gold production for most of its revenue. Berkshire's decision to invest in the company was likely based on profiting from the company's performance, and that is precisely what happened.

A rally in gold and copper prices can boost the company's profitability. Conversely, declining prices decrease its profit margins. After posting all-time highs in August 2020, gold prices have been declining. Experts expect gold prices to decline further in 2021, as global economies recover.

Foolish takeaway

Buffett decided to sell GOLD stock as the pandemic might begin to subside soon, making it an understandable decision. It might not be the best time to invest in gold or gold-related assets like Barrick Gold. You could consider finding value opportunities in other sectors where stocks can surge in the recovering market.

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