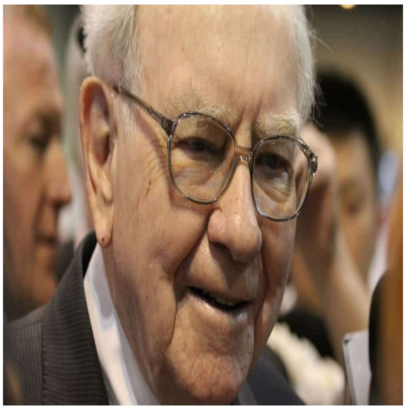

Warren Buffett Made a Very Unusual TSX Stock Purchase

Description

“It won’t do anything except look at you.” Warren Buffett spoke these words in 2009, referring to the world’s most precious metal. The famed value investor never had a liking for gold until the 2020 global pandemic. For the first time, **Berkshire Hathaway** took a position in a gold stock in Q2 2020.

Buffett’s conglomerate bought 20.9 million shares of **Barrick Gold** (TSX:ABX)(NYSE:GOLD), much to his loyal followers’ surprise. Naturally, mining stock investors were euphoric, because the purchase was very unusual for the number one gold detractor. The out-of-character move somehow gave the impression that gold is truly a safety net.

Brief romance

In Q3 2020, Berkshire Hathaway surprised investors again by trimming its stake in the Canadian gold producer by 44%. It was queer, because it was during the quarter that Barrick’s share price reached the highest in 2020 (almost $40). As of September 30, 2020, Buffett had 12 million shares of the top-tier gold company.

When Berkshire reported its investments for Q4 2020 with U.S. securities regulators, Barrick Gold wasn’t in the basket anymore. Warren Buffett sold his entire holdings after a brief romance with the gold stock. Perhaps the GOAT of investing anticipated a quarterly profit drop due to lower production and fluctuating gold prices.

Berkshire Hathaway has only one TSX stock left following its exit from Barrick. Although the company reduced its holdings in the underperforming energy stock by 27.87% during the same quarter, Suncor Energy remains in the portfolio.

Gold under pressure

Some market analysts say Buffett’s ditching of Barrick was timely. Others argue that gold is a risk diversifier, if not protection against bouts of volatility. Nonetheless, Buffett’s action only confirms his belief that gold lacks utility and is not procreative. He said in 2011, "Gold is a way of going long on fear." He adds that it's a problem if you go long on fear.

Gold prices have been struggling lately and hitting eight-month lows. An increase in bond yields is a bane for the yellow metal. But for long-term investors, purchasing gold at a discount is a good strategy. The global recovery in post-pandemic and the low-interest-rate environment should boost prices. Gold experts also insist that it has the potential to store value over time.

Bonus for investors

On February 18, 2021, Barrick Gold's CEO Mark Bristow disclosed plans to propose the return of US$750 million to its shareholders. Bristow will ask shareholders to vote for a one-time distribution at the company's annual meeting in May 2021. The special payout is on top of the regular dividend. Barrick Gold pays a modest 1.84% dividend.

According to Bristow, the $44.33 billion Toronto-based gold and copper miner met its production target, delivered on business plans, and fully capitalized on the higher gold price and copper prices in 2020. Barrick Gold also achieved a zero-net debt on year-end.

Graham Shuttleworth, Barrick's CFO, added that the proposal for a bonus demonstrates its commitment to return surplus funds to shareholders. Furthermore, free cash flow has been increasing over the last three years. Thus far, in 2021, the premier gold stock is down 11.17% and trades at $25.61 per share. The discounted price should be a good entry point for interested investors.

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Date
2025/07/06
Date Created
2021/02/26
Author
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