



Time to Buy Gold Stocks?

Description

Gold prices have dropped from their all-time highs set last summer when they passed the US\$2000 per ounce level. As of the time of writing, the yellow metal has dropped below US\$1700 per ounce. Does this mean that it's time for investors to buy gold stocks, or should investors turn their investments elsewhere for growth?

What's happening with gold prices and why it matters

Gold has been used as a safe store of wealth for as long as we've been able to mine it. When there's uncertainty in the market, investors flock to the perceived safety that gold provides. That safe store of wealth view is very much ingrained into our investment decisions, but in actuality, gold isn't exactly the safest investment. You can't, for example, go to your supermarket and pay for your groceries in bullion. Similarly, gold that you have stashed away as a safe store of wealth, will not grow over time like an investment.

Since the pandemic began last year, we've seen unprecedented volatility in the market. Following the initial crash last year, the market has clawed back much, if not all of those losses. That hasn't erased the uncertainty associated with the pandemic, which is part of the reason why gold prices have risen in the past year.

More recently, we've seen markets rally, and as expected, gold prices began to drop. Most pundits will agree that this was expected, particularly as weary investors returned to the market. So what exactly does this mean to prospective precious metal investors?

In short, gold stocks are still good investments for long-term growth. If anything, the current climate offers an opportunity to diversify into the segment. One such example is **Wheaton Precious Metals** ([TSX:WPM](#))([NYSE:WPM](#)).

How is Wheaton different?

Wheaton isn't your typical precious metal stock. In fact, Wheaton is a streamer. Streamers differ from their traditional miner peers in that they do not own or operate any of the mines. Instead, streamers provide an upfront capital injection to traditional miners. Those funds are used by the miner to spin up the mine and begin operations. In exchange for providing that upfront financial muscle, streamers are entitled to purchase some of the metal produced at a discounted rate.

That discounted rate can be significant. Gold can be purchased for as low as US\$400 per ounce, while an ounce of silver can be purchased for US\$4.50. Once purchased, the streamer can choose to hold onto those precious metals, or sell them on at the current market rate.

That lower-risk business model also means that the streamer can quickly move on to the next mine. In other words, streamers can have ongoing investments in multiple mines without needing to worry about day-to-day operations. In the case of Wheaton, that works out to 23 active mines on three continents. The company also has a further 8 mines in various stages of development.

As an aside, this also means that Wheaton can diversify the types of metals being extracted. Across the streamer's current bevy of mines, Wheaton has streaming contracts in place for gold, silver, palladium, copper, nickel, and other metals. This also makes Wheaton a [great defensive pick](#).

In terms of results, in the most recent quarterly update, Wheaton generated an operating cash flow of \$208 million. This represented a solid 58% increase over the same period in the prior year. Revenue during the most recent quarter topped \$286 million. Over the course of the full fiscal, those results helped the company post a record-breaking \$1,096 million in revenue.

Should you buy gold stocks like Wheaton right now?

Wheaton is a diversified, lower-risk investment, particularly when compared to its traditional miner peers. Wheaton also offers investors a quarterly dividend, which currently works out to a respectable 1.37% yield. In other words, in a volatile market, [diversifying your portfolio](#) is always a good option. More specifically, taking a position in a streamer such as Wheaton is always a good option.

It might just be time to buy gold stocks, particularly if they are streamers called Wheaton.

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Author

dafxentiou

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