



Will Buying Gold Stocks Now Make You Rich?

Description

Happy Thanksgiving Day, fellow Canadian investors! Gold stocks have corrected substantially recently. Will you thank yourself in the future by buying gold stocks at current levels? Will buying gold stocks now make you rich? A part of the game in stock investing is to buy low and sell high. That certainly applies to gold stocks.

Barrick Gold stock

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) stock fell below \$18 per share during the pandemic market crash last year. Within half a year, it traded as high as \$40 per share for a whopping upside of more than 122%. That is, investors could have more than doubled their money.

Today, [Barrick stock](#) has tumbled more than 40% from its high to about \$23 per share. The gold stock offers deep value trading at roughly 6.6 times its cash flow, whereas its long-term normal multiple is about 11 times. This means it has the potential to trade at about \$37 per share for price gains of 60%.

The company has an investment-grade balance sheet. So, it should have no problem going through some rough patches. The problem is the stock is highly cyclical and dependent on the underlying commodity prices. Buyers would need to be super patient and be able to stomach the volatility. Furthermore, from the looks of it, the sell-off may not be over yet. Only in hindsight will we know if it'll revisit its pre-pandemic lows again.

Simply put, if you are a gold bull, it would make sense to buy a partial position at current levels. Barrick stock also offers a 1.9% yield right now that can add to your total returns.

Franco-Nevada stock

Investors who have bought **Franco-Nevada** ([TSX:FNV](#))(NYSE:FNV) stock in corrections have always made money because the stock has traded higher in the long run. Franco-Nevada is primarily a gold royalty and streaming company with a large and diversified portfolio of assets. This makes it a much

safer investment than gold miners.

As explained on Franco-Nevada's website, royalties are ongoing economic interests in the production or future production from a property, while streams are metal purchase agreements that provide, in exchange for an upfront deposit, the right to purchase all or a portion of one or more metals produced from a mine at a preset price.

As of the end of September, Franco-Nevada's portfolio consisted of 55 oil and gas producing assets and 57 producing assets from mines. More growth is expected with 41 projects in the advanced stage and 254 projects in the exploration stage.

Because of the security its business model brings, the streaming/royalty company trades at a much smaller discount than gold miners. The stock is expected to have about 17% near-term upside potential.

Notably, [Franco-Nevada](#) is a Canadian Dividend Aristocrat that has boosted its dividend every year since 2009. It last increased its dividend by 15% in August. That is an exceptional hike, as its five-year dividend growth rate is about 4%, for example.

The investor takeaway

It's not a bad time to consider investing in gold stocks given their recent corrections. You can make money with gold stocks, but instead of betting big on them, it would be more prudent to size your position. Consider gold stocks as a part of your diversified portfolio. Investors might own 0-5% of their stock portfolio in gold stocks.

However, because these stocks often pay small yields with dividends that shouldn't be entirely trusted, it would be best to take profit when a rally starts to feel tired. In other words, I believe it's of utmost importance to aim to buy low and sell high when investing in gold stocks.

Stay hungry. Stay Foolish.

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kayng

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