3 Reasons I Prefer Gold Stocks Over Bitcoin in 2022

Description

Forget about **Bitcoin** (CRYPTO:BTC), **XRP**, **Solana**, and other high-flying cryptocurrencies for a moment. While they may be acting like a gold substitute amid Russia's invasion of the Ukraine, I still think it's far too soon for investors to swap out their gold bullion, ETFs, or miner stocks for cryptocurrency assets. You don't need to pick one or the other.

While crypto, which is often referred to by some as millennial gold or "the new gold," may be more exciting among younger generations, traditional gold, I believe, still deserves a spot at the core of any portfolio. If anything, it's an asset that can hold its own better should the crypto markets be in for yet another cyclical downturn.

While both gold and Bitcoin are speculative assets, given it's virtually impossible to value them, as they do not produce anything, I think there are significant differences that lead me to believe that gold is the better store of value.

Bitcoin is too volatile

Bitcoin and other cryptos are just way more volatile than gold. When looking to incorporate a new investment in your portfolio, you should ask yourself if you're adding risk or subtracting it. While Bitcoin may be less correlated than the broader equity markets, gold has proven steadier during times of turmoil. Indeed, Bitcoin may have more rewards potential for its higher magnitude of risk and volatility.

That said, its past years of strong performance have likely caused many to flock to the asset in search of quick riches. However, gold is such a boring asset to trade that your odds of getting rich from holding it are next to nil. Storing value and building wealth are two different things, though. And in the case of Bitcoin, I view it as more of a speculative momentum play than a way to preserve your wealth over the long run.

Bitcoin's degree of cyclicality is far more fierce

With inflation continuing to eat at savings, the appeal of Bitcoin and other alternative assets has heated up. The draw of big ups and downs has many traders in and out of Bitcoin, making the asset more of a trader's playground than a place to park substantial sums of cash.

Bitcoin lost a considerable amount of value in 2017, and interest dried up until the lead-up to the pandemic. Could another decline in excess of 70% be in the cards? I'd say it's likely, given Bitcoin's past. If you're comfortable buying crypto after such a massive decline, a case could be made to wait it out for the next dissipation of interest. Perhaps when the Ukraine-Russia crisis and the pandemic both end, appetite for speculative alternative stores of wealth could drop considerably. Gold would take a hit in such a scenario, but likely far less than the likes of a Bitcoin.

Gold investing can be very productive

Gold may be viewed as an unproductive asset, but its well-run miners are anything but. Some, like **Barrick Gold** (TSX:ABX)(NYSE:GOLD), have driven operational efficiencies to a level such that the firm can do incredibly well, even if gold prices were to slip by a wide margin moving forward. This gives the firm the confidence to pay a dividend (currently yielding 1.7%). If gold were to implode below US$1,200 per ounce, then, sure, the dividend would face the chopping block. But given the less relative volatility in the gold space, such a scenario seems unlikely, even if macro risks disappear.

Gold miners are more volatile than gold itself, given the leverage involved. They can suffer Bitcoin-like drops. But with miners like Barrick, I'd argue that the risks of such a decline are less at current valuations.

Gold or Bitcoin?

Between gold and Bitcoin, I'd have to go with gold every day of the week. It's a more established asset with far less downside risk in my books.

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