



Is it a Good Time to Buy Gold Stocks?

Description

Gold, the shiny yellow metal, has been the symbol of wealth for generations. While gold has applications in technology, it is largely used in jewelry, gold bars, coins, and ETF holdings because of its store of value. This brings us to the question, is gold a good investment? If so, when is a good time to buy gold stocks?

Gold has low correlation to other asset classes

Gold is a commodity whose price is determined by demand and supply. But, as I said before, gold demand is more for its store of value than its usage. For lithium or silicon, you can analyze metal prices by looking at the demand for electric vehicles and semiconductors. But gold demand rises when investors are bearish on the economy, as gold is a safe-haven investment. Hence, gold tends to outperform in a financial crisis.

Historically, gold prices tend to rise when bond yields fall, the dollar weakens, or the economy is under recession. Gold price shot up during the 2000 dot.com bubble, the 2009 financial crisis, the 2020 pandemic, and amid the Russia-Ukraine war.

Why is the gold price rising?

Gold surged 8.5% to peak at \$2,049.85 between February 27 and March 8. Investors jumped to buy gold, as fears of a Fed interest rate hike followed by Russia's invasion of Ukraine [pulled down](#) global stock markets. The Nasdaq 100 index fell 6.8%, and the S&P 500 index fell 4.65%. Investors are buying gold stocks, as escalating geopolitical tensions and Fed interest rate hike is creating fear of [recession](#).

Are gold stocks a good investment?

Now that you know that gold price rises in crisis, is it wise to invest in gold in the long term? Gold is a

tactical investment rather than a strategic investment. It underperforms in the long term but outperforms during a crisis. Hence, it is not a good strategy to have significant exposure to gold or depend on the yellow metal for your [retirement planning](#).

However, gold is a tactical investment, because when other investments (stocks and bonds) drop, gold surges significantly, offsetting the portfolio downside. You should invest in gold to diversify your portfolio risk. Gold ETFs and gold mining stocks are a good way to get exposure to the gold price. But invest only a fraction of your portfolio, less than 5%, in gold stocks.

Is it a good time to buy gold stocks?

I prefer gold mining stocks, as they don't have an annual expense ratio like the gold ETF. Companies mine gold and benefit when the gold price surges past the production cost. They share the excess cash flow from high gold prices with shareholders through [dividends](#). Here are the top two gold mining stocks that pay dividends:

- **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD): 1.77%
- **Kinross Gold** ([TSX:K](#))(NYSE:KGC): 2.36%

Looking at the dividend yield, Kinross seems like a better buy. But if you look at the dividend history, the company has only paid dividends 10 times in the last 10 years (from 2011 to 2013 and 2020 to 2022). It has been paying a steady dividend of \$0.03 per share since 2020.

Barrick Gold, however, has been paying dividends every year since 1987. However, the frequency and dividend amount depend on the gold price. During the financial crisis, the company increased its dividend amount. It raised its quarterly base dividend by 11% for 2022 and gave a special return of capital of US\$0.42 per share in 2021.

Barrick Gold has introduced a [new dividend policy](#). Under the policy, it will pay an additional performance dividend between US\$0.05 and US\$0.15 if its quarterly net cash increases between US\$1 and US\$1 billion. With gold trading above US\$1,900 per ounce, you can avail of quarterly dividends of up to US\$0.25 per share.

With fears of recession looming, it is a good time to buy gold stocks. And between the above two mining stocks, Barrick Gold is an obvious choice for its performance-based dividends.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:K (Kinross Gold Corporation)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. pujatayal

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/19

Date Created

2022/04/29

Author

pujatayal

default watermark

default watermark