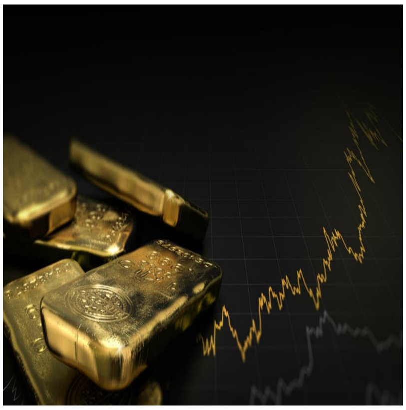

It's a No-Brainer to Buy This Gold Stock

Description

It is a no-brainer these days to put some money into gold stocks. Warren Buffett knows it. Eric Sprott knows it. There is going to be a lot of money to be made in the sector in the coming years. In spite of the surprising lack of coverage on many media channels, gold's move upward this year is very telling in the grand scheme of the economic environment.

The wind is at gold's sails moving forward. There is no political will to stop money-printing across the world. Practically every central bank is manipulating interest rates to well below market levels in an effort to increase inflation. This will hurt savers on two fronts: through lower interest on savings and increased inflation, which will erode the purchasing power — essentially, another tax on savers.

Gold as a saver's alternative

The good news is, there is a way investors can maintain purchasing power. By investing in gold miners, investors may be able to actually benefit from the inflationary trend. As the purchasing power of dollars decreases, it takes more dollars to purchase an ounce of the metal. That means that gold, when priced in fiat currency, becomes more valuable.

Gold miners are in the sweet spot

Gold miners right now are in one of the best situations they have ever faced — even better than the situation in the early 2010s. The margins on these companies are shooting higher for a variety of reasons, with the gold price only being one attribute.

Besides price, gold miners are benefitting enormously from the fall in the price of oil. Energy prices are one of the major input costs to gold companies. If you consider that in the early 2010s, the price of oil was over $100 a barrel, think about how this approximately 60% reduction in costs has lowered the total cost of production. That money goes straight to free cash flow, allowing companies to increase dividends, pay down debt, or buy back shares.

An example of profitability

Take **Kinross Gold** (TSX:K)(NYSE:KGC), for example. This company is starting to move higher, but the upward trajectory is only just beginning. This company has its financial house in order and is going to do very well in the coming years.

The stock is starting to look cheap on valuation, as its profitability continues to increase. The current price-to-earnings (P/E) ratio as of this writing was about 13.8 times trailing earnings. This P/E ratio indicates that profitability is starting to increase. Operating cash flow increased by 30% year over year as compared to Q2 2019. The company also reported that it had over $1.5 billion on its balance sheet in the quarter — a fantastic amount of cash to work with.

Dividends

Although I don't believe in buying a commodity company solely for its dividend, It is a nice bonus should the company be profitable to pay one. Kinross cut its dividend seven years ago in response to the drop in gold prices and the resulting impact on its profitability. That fact may have impacted some investors who feel a dividend is a necessary part of their investing strategy.

Well, Kinross announced that it is reinstating a dividend policy. This is positive for the company on two fronts. First of all, it indicates that the balance sheet and earnings potential is strong enough to support a dividend going forward. Also, it will likely draw income-starved investors into the sector who may not have otherwise bought shares.

The Foolish takeaway

There is a strong possibility that gold could move further to the upside. If gold continues to trend higher, gold stocks will be even more profitable than they already are at these levels. Buying a stock like Kinross will give you leveraged exposure to the gold price and a small dividend as well. Protect your wealth and start buying gold stocks today.

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2. Metals and Mining Stocks

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