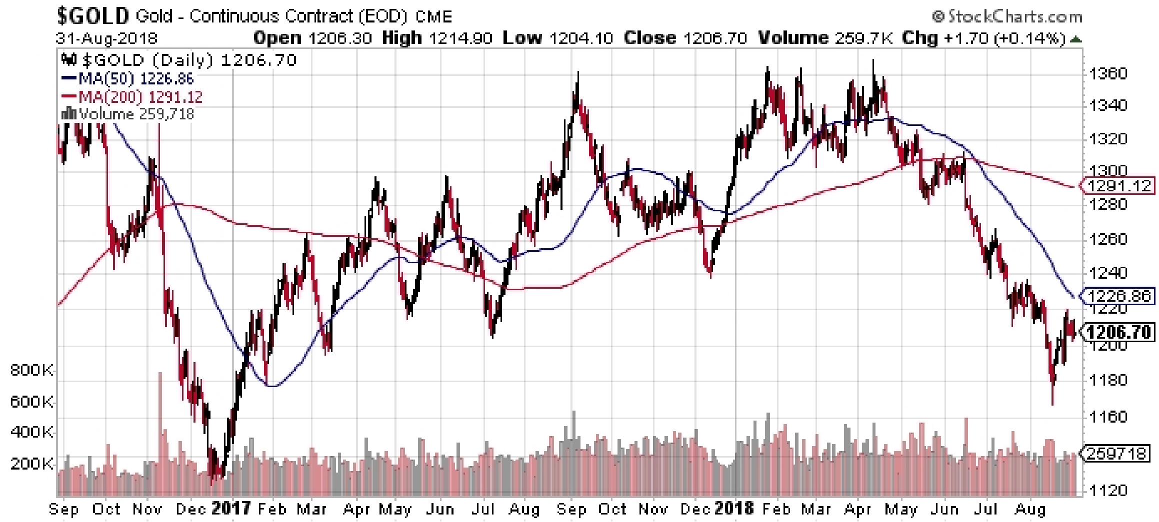
Two of the Best Ways to Trade Gold Today

In mid-2018, the metal plummeted from $1,360 to February 2017 support at $1,180.



There were two reasons for that.

One, the U.S. dollar was rallying. And two, there were arguments for the Federal Reserve to raise interest rates on economic growth.

And there was no shortage of bearishness.

“Wagers on gold’s declines outnumbered bets on price gains by 78,579 futures and contracts in the week ended Aug. 21, according to U.S. Commodity Futures Trading. That’s the fifth straight week that money managers boosted their net-short position on the metal,” said Economic Times.

“Gold Investors Give up Hope as Biggest Short in History Builds,” blared Bloomberg. “Gold is hitting new milestones of misery. Exchange-traded funds tracking the metal have bled assets for 13 consecutive weeks... [and] investors have placed the biggest gold short on record.”

“Speculators are also net short for the first time since December 2001, when gold was priced at $275 an ounce, according to Peter Boockvar, chief investment officer at Bleakley Financial Group, as quoted by CNBC. "It's literally off the charts. 215,000 contracts is double what it was the third week of June, triple what it was the second week of June. It's up nine weeks in a row.”

However, that’s not a sign that investors should be short.

Instead, it’s a contrarian’s dream come true. When traders become this bearish, it’s time to start buying. It’s time to buy the blood in the streets, as Baron Rothschild would say. It’s time to buy the excessive pessimism, as Sir John Templeton would say.

And it’s time to buy when others are fearful, as Warren Buffett would say.

Technically Speaking…

This isn’t the first time we’ve seen a gold sell off of this size.

Technically, each time gold gets this oversold, the technical indicators have told us exactly when to buy. Going back to November 2015, look at what happens each time RSI falls below its 30-line coupled with an excessive pullback on MACD, coupled with Williams' %R under 80.

Gold bounces.

That same set up began to appear in August 2018, even as an overly bearish herd was betting on further aggressive downside.

How to Trade the Eventual Bounce

There are a few ways to trade gold, but you must have patience.

Trade No. 1 – Goldcorp (GG)

In its most recent quarter, GG missed on EPS and revenue. The miner posted a lower-than-expected adjusted quarterly profit as its gold production dropped and foreign exchange currency costs moved higher. It posted a net loss of $131 million, or 15 cents per share, compared with a net profit of $135 million, or 16 cents per share year over year. We should point out that there was a non-cash foreign exchange loss of 20 cents per share. So, the gold miner's operating cash flow did remain stable.

While gold production was lower year over year, management expects to increase gold production in the second half of 2018 with its Éléonore mine in Quebec and Cerro Negro mine in Argentina. It also confirmed its 2018 guidance for gold production of about 2.5 million ounces at all-in sustaining costs of US$800 per ounce plus or minus 5%. Cost-reducing and production-improving initiatives have also been successful for the company.

Management also believes the company is on track to grow production by 20%, and reduce its all-in sustaining costs – a key industry benchmark – by 20%, by 2021. "With the ongoing successful ramp up of the Éléonore and Cerro Negro mines, on plan gold production across the portfolio and our pipeline of growth projects being advanced on budget and on schedule, we continue to execute on the delivery of our 20/20/20 plan of growing production and reducing AISC by 20% by 2021," said David Garofalo, President and Chief Executive Officer of Goldcorp. "In addition, the strong exploration results achieved during the quarter, highlighted by the results at Musselwhite and Cerro Negro, demonstrate our exploration team's ability to find new discoveries within Goldcorp's highly prospective and under-explored land packages in order to achieve 20% reserve growth by 2021."

In my opinion, GG is in a great position to do well with exposure to an oversold gold market.

There are two ways to trade GG at the moment.

One, you can buy the stock at market prices. And, or two you can buy to open the GG January 18, 2019 11 calls, which last traded at 78 cents.

Trade No. 2 – VanEck Vectors Gold Miners ETF (GDX)

One of the best ways to trade gold is by diversifying, especially when most of its holdings are oversold and ready to bounce. A personal favorite is the GDX, which replicates the price and yield performance of the NYSE Arca Gold Miners Index (GDMNTR). Its top holdings include Newmont Mining, Franco-Nevada Corporation, Barrick Gold, Goldcorp, and Royal Gold Inc.

Buy the GDX ETF and hold long-term.