Investment Snapshots: On Gold Miners

13th November 2013

The next couple of slides contain a couple of interesting graphs regarding gold miners stocks. My view is that these stocks (which you can access via the ETF GDX, the Market Vectors Gold Miners) are now particularly beaten down, and sentiment towards them is very negative. This sentiment reflects the correct view that gold (the commodity) is probably still overvalued, but the same sentiment fails to take into account what has <u>already</u> taken place in terms of price adjustment of the miners. These conditions have proven beneficial in the past if an investor can take a 3-5 year view; in the meantime, it is also fair to say the volatility (and down-side risk) can continue to be quite elevated.

The graph on this page shows the price of gold - in white - and the price of the gold miners index on which GDX is modeled - in orange. As you can see, the miners have practically returned to the level last seen in the middle of the worst of the financial crisis; gold, instead, is still approximately 70%-80% above that level. Gold miners, incidentally, are selling below book value, which is also quite interesting.

Source: Bloomberg

This second graph shows the gold miners index - in orange still - and the ratio of gold price to the gold miners index - in white. To be clear, as the ratio - white line - goes up it indicates that gold is going up in price faster than the gold miners' index (alternatively, gold price is falling slower than the miners' index); it is a measure, in other words, of the outperformance of gold in respect to the gold miners. You can see this ratio has quite an interesting mean-reverting property versus the gold miners' prices.

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