



Some Investors Seek Safety in Gold Amid Stock Volatility

Recent dollar weakness and growing talk about negative interest rates are pushing up the yellow metal.

By Elizabeth Leary
February 25, 2016

After more than three years in the dumps, gold is once again glittering. The price of gold bullion has surged from \$1,049 an ounce in midDecember to \$1,208 an ounce today, a jump of 15%. Market Vectors Gold Miners ETF (symbol GDX, \$18.53), an exchange-traded fund that tracks an index of 36 mining stocks, has zoomed 49% since January 19. (Prices and returns are as of February 22.)

Gold has benefited as turbulence in the stock market and parts of the bond markets sends investors scurrying for safe havens. Also contributing to gold's revival is recent weakness in the U.S. dollar. Because gold is priced in dollars, its price rises when the value of the greenback falls (although it is possible for gold and the dollar to move in tandem, as happened in 2008, when investors flocked to both gold and dollars during the financial crisis).

The dollar, in turn, has been struggling lately over growing speculation that the Federal Reserve will not be able to raise short-term interest rates as much as it would like and might, in fact, have to resort to negative interest rates, as central banks in Europe and Japan have done.

Fed Chair Janet Yellen discussed negative interest rates during congressional testimony on February 10. She said that although the Fed doesn't currently see a need to take rates below zero, such a move might be useful to keep in its arsenal. The price of gold jumped \$51 an ounce the day after her comments. "The fact that the Fed is now openly discussing negative interest rates has made a lot of people think, Why do I need to keep my money in a bank?" says John Hathaway, comanager of the Tocqueville Gold Fund (TGLDX).

George Milling-Stanley, head of gold strategy for State Street Global Advisors, says that gold should be worth \$1,250 to \$1,350 per ounce, given dynamics in interest rates and the stock market, and given current rates of production and consumption of gold. A move to \$1,350 would represent a 10% jump from the current level, but Milling-Stanley adds that the price could also jump much further if momentum-following investors pile into gold. That was what happened from 2010 to 2011, he says, when the price of gold popped from around \$1,100 per ounce to nearly \$1,900 per ounce.

If you want to ride the golden tide, you have several options. You can make a bet directly on the price of gold by buying one of the exchange-traded products that invest in bullion. The two biggest are SPDR Gold Shares (GLD, \$115.49) and iShares Gold Trust (IAU, \$11.65). We slightly prefer the latter because of its lower expense ratio, 0.25%, compared with 0.40% for the SPDR fund.

You'll find bigger opportunities—and bigger risks—in stocks of gold-mining companies. Tom Winmill, manager of the Midas Fund (MDSX), says that the way to play a gold bull market is to buy mining companies with high cost structures. If a company spends \$1,225 to produce one ounce of gold and that ounce of gold sells for \$1,230, then the company only nets \$5 per ounce, he explains. But when the price of gold rises to \$1,350, profits pop to \$125 per ounce, a 25-fold increase. Two companies that Winmill says fit the bill are Yamana Gold (AUY, \$2.66) and Detour Gold (DRGDF, \$15.33). Yamana produces gold in South America, but because the company also produces copper it isn't a pure play on the gold rise. Detour conducts open-pit mining in Canada. It extracts thousands of tons of rocks and earth, resulting in just a few grams of gold per ton processed.

The safer, though far from safe, way to invest in mining stocks is through a fund. Tocqueville Gold is a fine option, although you're unlikely to invest if you pay too much attention to its record. It lost money in each of the past five calendar years, including a horrific 48% decline in 2013. That said, its five-year annualized loss of 18.3% through February 19 puts it in the top 32% of its category. Over the past 15 years, Toqueville returned an annualized 10.6%, crushing the average precious-metal stock fund by an average of 8.2 percentage points per year and Standard & Poor's 500-stock index by an average of 5.5 points per year. At the end of 2015, the fund held 15% of the portfolio in actual bullion and the rest in mining stocks. Three Canadian companies occupied the top three spots: Detour Gold, Franco-Nevada Corp. (FNV, \$57.70) and Agnico Eagle Mines (AEM, \$34.65). The fund's annual expense ratio is 1.43%.

Market Vectors Gold Miners is the best choice if you prefer an ETF. As with the Toqueville fund, the ETF lost money in every calendar year from 2011 through 2015, so buying it will require a leap of faith, as well as confidence that the rally will continue. Its top three holdings are Barrick Gold (ABX, \$12.82), Newmont Mining (NEM, \$25.12) and Goldcorp (GG, \$15.12). Newmont is based in the U.S., the other two in Canada. Annual expenses are 0.53%

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