Thursday, May 10, 2012 11:11 AM EDT

Gold Stocks (GDX) Rise, “Valuations are So Attractive”

By jturbin

GOLD STOCKS NEWS – Gold stocks advanced Thursday morning as the Market Vectors Gold Miners ETF (GDX) climbed $0.40, or 0.9%, to $43.42 per share. Gold stocks and the GDX were boosted by a fractional rise in COMEX gold futures to $1,596 per ounce and modest strength in the broader equity markets. The S&P/TSX Global Gold Index, Canada’s leading gold stocks composite, jumped 1.2% to 294.46 in conjunction with the GDX.

With today’s rally in gold stocks, the GDX is on pace for its best two-day stretch since March 23-26. Yesterday the GDX reached another new multi-year low of $41.10, but later turned sharply higher to close with a gain of 2.0% at $43.02 per share. This positive reversal was a particularly encouraging sign for a sector that has been under substantial pressure in recent months. From a technical perspective, yesterday’s “outside-up day” is frequently associated with a change in trend – particularly if it is accompanied with follow-through in the subsequent days.

One notable investor who recently issued a bullish call on the gold stock sector is Tom Winmill, portfolio manager of the Midas Fund. In a recent interview with Minyanville, Winmill stated that “If you look at the gold price relative to the pricing of gold mining equities, the valuations are so attractive for gold mining equities; it’s really amazing.”

“The difficulty is screwing up one’s courage and taking the plunge, because so much of investor thinking is past performance, whereas we all know, no matter what we are thinking, that actually, for an investor, the most important things are future returns,” Winmill added. “So, you’re seeing very well managed gold mining companies with diverse, global portfolios and plenty of access to capital markets, both debt and equity markets, selling for very low valuations sometimes, current P/Es of 9 and 8, and very low cash flows.”

Winmill went on to say that “Valuations, I’d say, we last saw in the panic time of 2008 and prior to that, I just can’t remember, having been in this business since the early ’90s. And the cash flows these companies are getting are just enormous, relative to their total market capitalizations.”

As for particular gold stocks that he likes at this time, Winmill only discussed one company: "I'd say an intriguing one, and this is one I would not necessarily recommend for most investors, is AngloGold (AU). The South Africans are fascinating because they have been sold down so hard and they have generated significant cash flow. The fun thing about the South Africans is that if the dollar gets strong, that's usually negative for gold, because most gold miners produce and have expenses denominated in dollars, so if the dollar gets strong, their expenses go up and so forth. The South Africans, most of their expenses occur in South African Rand, so AngloGold — to an extent it has South African operations — and they are diminished too, I think they're less than half now of revenue; it's somewhat protected, has a built-in hedge against dollar appreciation. They generated free cash flow around a little bit over $800 million; they're paying down debt dramatically."

AngloGold Ashanti (AU) was one of the best performing gold stocks this morning, as it climbed $1.33, or 4.1%, to $33.86 alongside the GDX. Other notable gold stocks moving higher included GDX components Gold Fields (GFI), Harmony Gold (HMY), and Randgold Resources (GOLD). GFI rose by 3.2% to $13.21, HMY by 1.5% to $9.62, and GOLD by 1.3% to $78.33 per share.