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INVESTING | 8/07/2013 @ 1:11PM | 155 views

Fund Managers: Mining CEOs On Right Track By Trying To Control Costs

(Kitco News) - Managers of gold-related mutual funds for the most part say mining companies are doing what they should to help boost their share prices – controlling costs.

There has been a shift in the industry over the past couple of years to focusing on profitable output and returning value to shareholders more-so than a race to constantly ramp up total production.

Kitco News asked several fund managers what they feel the management of mining companies can do to help mining stocks, which tumbled this year along with the price of gold.

“I think they’re doing it,” said Joe Foster, portfolio manager with Van Eck [International](#) Investors Gold Fund. “They’re in austerity mode right now.

“This has been a process that started about a year ago. There’s been a change in management for many of these large gold companies. They’ve abandoned their growth targets and are looking to focus on profitability and costs and return on capital.”

The decline in gold prices so far this year has probably accelerated the cost-reduction process, he continued.

“I think the companies are doing what they need to do to cope with this environment,” Foster said.

Dan Denbow portfolio manager for the USAA Precious Metals and Minerals Fund, said “there’s only one thing they can do” to boost share prices. “That’s to come up with a good business plan to get a return on investor capital, and then deliver on those plans,” he said.

The recent decline in the price of gold has meant challenging times for chief executive officers, Denbow added.

“They’re getting a lot of on-the-job training in crisis management,” he said. “Hopefully, their reactions to it will pay dividends going forward.

“Managements are having to recalibrate business plans,” Denbow later added. “And those who react the quickest and come up with a good, solid plan that gets a return on capital – those stocks will probably be rewarded as

prices stabilize. They can prove to investors that there is a reason to own the stock.”

He pointed out that share prices of those companies that bettered investor expectations – even if those expectations were lowered – tended to fare best.

“So I think a lot of them are trying get to the point where they won’t be disappointing investors and they can actually deliver what they are promising to investors, whether it be on the production side or the cost side,” Denbow added.

One portfolio manager suggested that more mergers ultimately might make it easier to obtain low-cost financing, even though CEOs may want to avoid mergers.

“The name of the game in mining is to have adequate low-cost access to capital,” said Thomas Winmill, president and chief executive officer of Midas Funds, which oversees six funds. “That can be attained by companies that are larger and have diversified operations.”

He later added: “There is no reason why there should be 30 major mining companies. There should be the same (smaller) number of gold-mining companies as there are aluminum companies.”