Precious Metals Lose Luster As Market Rotates Into Energy

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Wed., Feb. 02, 2011 2:32 PM ET

Tags: Mutual Funds - Gold - Silver - Energy - Markets

Last year's top sector, precious metals funds, saw a reversal of a fortune as the market rotated into energy stocks in January. Natural resource funds outpaced all sector mutual funds, up 5.15% in January and 34.82% the past year, according to Lipper Inc.

Precious metals funds, investing in gold and silver producers, trailed all sectors, losing 10.71% and paring their trailing one- year return to 41.61%. Gold prices fell 6.4%, closing at $1337 an ounce, and silver tumbled 9.2% to $28 an ounce even though the dollar weakened 1.3% against a basket of the most widely-traded currencies.

"Gold could drop well into a range near its marginal cost of mining production, probably near $800 an ounce (but we doubt it) if medium term supply factors such as increased mine supply, scrap supply and central bank selling increase and demand factors, such as jewelry fabrication and ETF demand diminish," says Tom Winmill, manager of Midas(MIDSX).

He believes gold and silver prices will rebound in the second half of the year after a weak first half owing to U.S. fiscal and monetary policy.

"Low interest rates will send the U.S. dollar lower, requiring more dollars to buy an ounce of gold," Winmill wrote in an e-mail. "Current deficits and enormous national debt and entitlement obligations is resulting in a growth of money supply far in excess of anemic GDP expansion, which means domestic inflation longer term, and higher prices for all goods."

His fund lost 9% in January while gaining 43.5% the past 12 months.