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Super pit at the Kalgoorlie open-pit mine -AFP via @daylife

Gold broke through its 50-day moving average on Tuesday, hitting \$1,515 an ounce as the global economy grapples with an uncertain outlook given the budget debate in the U.S. and increasing sovereign debt woes in Europe. One fund manager has leveraged his position and is 120% invested in gold equities, calling \$1,700 the high for the year and, after a volatile six months, sees the yellow metal closing the year at \$1,600.

Buying the "alternate monetary asset" thesis, Tom Winmill, portfolio manager for the Midas Fund, understands that investors are accepting gold as a store of value, and he plans to monetize that.

"It is not a matter of whether holding gold is reasonable or rational," Winmill explains, "but given the way [gold prices] are being pushed around by geopolitical events, it could hit \$1,700 on the high-end and finish the year at \$1,600, there's going to be extreme volatility." (Read Gold And Silver To Outperform Coal, Iron Ore, Steel In Second Half).

Winmill points to the debt ceiling debate as one of the factors helping to push the price of gold higher, recognizing that along with ultra-loose monetary policy, the government is running out of tools to bring down unemployment rates that have crept past 9%. "The international situation is also unstable, just look at China," said the fund manager, referencing a report by Moody's noting that China's local governments' debt burden is actually \$540 billion more than auditors had estimated, providing an even larger challenge for China's large commercial banks and the People's Bank of China. (Read Dollar's Share Of Global Reserves Continues To Slide, Reserve Status Questioned).

Against this backdrop, Winmill sees people pouring into gold, from retail investors to central banks. To make money, his fund has leveraged itself and is now 120% invested in gold equities, essentially in gold miners. Out of \$120 million, the Midas Fund holds only 10 ounces of physical gold, with mining shares "trading at half their historical earnings" and providing a cheap, less risky way to tap historically high metal prices.

Midas' largest holding is Goldcorp, which Winmill likes for its "relatively safe political landscape," with most mines in North America and Mexico and only a few in Latin America. With gold prices at historic highs, populist governments, from Argentina to Venezuela, are tempted to renegotiate contracts and squeeze profits out of corporations, Winmill said.

Their second largest holding is a small-cap miner that trades in the pink sheets called Avocet Mining. Also preferred for the geographic and political advantages of its operations, having closed mines in the "corrupt" Philippines and refocusing in West Africa, specifically Burkina Faso, Avocet makes up 6.5% of their portfolio, according to Morningstar.

Northern Dynasty, a "development story" which "won't be operational yet" but appears like a "long-term hold" comes third, followed by a well-known large-cap, Freeport McMoran Copper & Gold. On the latter, Winmill noted "they are a well managed, entrepreneurial company with big cash flows."

Down the list appears Newmont, which Winmill called "just too cheap." The company, he explained, was trading at only 8 times cash flow, "too cheap at these metal prices." The fund manager explained that while the company is currently in a steady state with decent cash flows, its operations and massive reserves will quickly begin to grow, making it a growth play with a large cash flow and an attractive buy.

There are risks to their outlook, though. Winmill highlighted any concrete effort to fix the budget mess and any real tightening in real interest rates.

On the budget deficit, the fund manager noted that a default by the U.S. could indicate that they are actually getting serious about the budget problems, which "counter intuitively" would be bearish for gold.

On the other risk, a real tightening of monetary policy, Winmill explained that the end of QE2 acted like a tightening of 300 basis points along the middle of the curve. But for investors to truly value the opportunity cost of holding Treasuries, Winmill expects real interest rates on 2-year Treasuries to hit 300 basis points.

Real interest rates equal nominal interest rates minus expected inflation, so with CPI averaging about 3.5% this year according to Winmill, at 2-year Treasuries at yielding 0.431%, real rates are actually negative, explained the fund manager. Nominal rates would have to rise up to about 6.5% for the trade-off to make sense, given current levels of inflation.

Given the general outlook, though, Winmill is sure that his long-term strategy of buying and holding on to gold equities will make money. With leverage taking his holdings of gold equities to 120% of assets, Winmill will have a hard time if his predictions don't materialize. (Read Bernanke Admits He's Clueless On Economy's Soft Patch).