Midas' Winmill: 'Best To Wade Into Gold When People Aren't Talking About It'

By Allen Sykora Kitco News
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(Kitco News**) -** Gold is no longer getting the headlines in the mainstream press, nor the topic of conversation at cocktail parties, like it was a few years ago when prices ran up to record highs.

And that just might make this a good time to buy the yellow metal again, said one portfolio manager.

There are a number of factors that could boost gold, including geopolitical tensions around the world, the likelihood that the Federal Reserve will not hike interest rates quickly despite signs of an improving economy, plus seasonal demand, said Thomas Winmill, president of Midas Management Corp., which has $220 million in assets under management.

He cautioned that the gold market can be volatile and suggested the yellow metal should be a small portion of an overall investment portfolio.

"It is probably best to wade into gold when people aren't talking about it – when people have kind of thrown in the towel," he said. "People are not talking about the fact that it is actually one of the best-performing commodities so far in 2014. It has outperformed most equity markets, it has outperformed Treasuries, it has outperformed a lot of the commodities – not palladium – but it is ahead of a lot of them.

"This is a sleepy time for time for gold. So psychologically speaking, it's the time to get in the market – not when everybody's brother-in-law is talking about it.

"The only people talking about it are you and me," he said to a Kitco News reporter with a chuckle. Turning more serious, he added, "that's one of the best times to start investing in gold."

Gold has risen so far in 2014 despite bearish forecasts from most of the major investment banks. Winmill said there was a lot of "gloom and doom" left over in the market after a steep sell-off during 2013. However, he continued, "we've seen gold come back from the dead."

As of Thursday's Comex pit settlement, the most-active December futures contract was up 7% for the year to date. "We can see a lot of reasons why gold can go higher," Winmill said.

He cited geopolitical factors, such tensions between Russia and Ukraine, as well as Israel and Palestinians in the Gaza Strip, plus violence in Iraq. This has prompted so-called safe-haven demand for gold.

Meanwhile, the market is focused on the U.S. macroeconomic picture and Fed policy. Much of the decline in gold last year was blamed on an expectation that the Federal Open Market Committee would eventually start scaling back its bond-buying program known as quantitative easing, which has occurred at each meeting so far this year. The market has largely factored in an end to QE, with the focus now when the federal-funds rate might rise from near zero.

Winmill suggested this might be a ways off yet. He pointed out actual economic growth has tended to fall short of economic projections, such as those from Fed officials and international institutions such as the World Bank.

"I think the market at some point will say, 'you know, they're not going to raise rates,' and there could be some positive upside for gold," Winmill said.

He also pointed out the seasonally strong period for gold begins in the third quarter since manufacturers of jewelry start buying metal ahead of a number of gift-giving holidays around the globe into year-end.

Collectively, he called all of these factors "mildly bullish" for gold, although "not screamingly bullish."

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As for mining stocks, Winmill favors a diversified group of companies, sticking to those that "have demonstrated operational success and do not have too much leverage on their balance sheet."

"I would definitely avoid the smaller companies at this time," he added. "Their access to capital markets is very limited, and a lot of the smaller companies that are running losses simply cannot get financing. So you want to stick with companies that are generating positive cash flow and do not have a lot of debt on their balance sheet.

"I think the quality companies will be the first ones to pull equities upward."