

Gold set to hit new highs in 2009



By Peter Cooper on Saturday, January 31, 2009

Gold funds, both managed funds and exchange traded funds, have been gaining in popularity, having proved highly defensive in the global financial crisis of 2008, which left many asset classes decimated.

Late last year, the Dubai Multi Commodities Centre seeded its DSAM Kauthar Gold Fund with \$50 million (Dh183.5m), which invests exclusively in the top performing Tocqueville Gold Focus Fund. This is a sub-trust of the Al Safi Trust and managed by New York based Tocqueville Asset Management.

As the table on the opposite page shows, this managed fund has started 2009 with positive gains and over the past year and was only beaten by the pure-metal exchange-traded funds (ETFs) SLV and GLD. Many commentators think that funds investing in gold shares rather than just precious metals will do better than the ETFs in 2009. Thus so far, the leverage of owning gold stocks rather than the precious metals as an ETF is unproven. However, Tocqueville is holding its position among the leaders of the gold fund pack globally, and remains the only such fund quoted in Dubai. In this exclusive interview Tocqueville Gold Focus Fund portfolio manager John Hathaway tells **Emirates Business** why gold funds should deliver this year.

The gold price broke through \$900 this week but has not jumped as high as one could expect in a financial crisis. Why is that?

Gold prices rose 5.8 per cent in 2008, the eighth year in a row they have risen in US dollar terms. That means gold out-performed all other asset classes including US treasuries. Many feel gold should have risen to a far greater extent in light of the financial crisis.

However, in a deflationary environment, assets must be sold to meet margin calls and liquidate debt. The fact that gold rose in a deflationary environment, while all other commodities fell, illustrates that gold's monetary traits outweighed the economically sensitive traits inherent in other hard assets.

The new buyers of gold cut across the spectrum and range from retail investors of modest means to wealthy families and institutions. They have one thing in common: distrust of financial institutions, government policies, and paper money whose value is subject to debasement by government actions.

Many investors in the Middle East hold physical gold and sometimes trade the markets. You buy shares of gold mining and production companies. Gold outperformed gold stocks last year, so why do you do this?

Historically, shares of gold mining companies have provided positive returns relative to the gold price. All that changed in 2008 when the gold price rose slightly and the shares fell 27.7 per cent based on the widely used XAU benchmark (Philadelphia Stock Exchange Index of Gold and Silver Stocks).

As a result, gold mining shares represent the greatest values relative to the gold price in 25 years. These are the shares I am buying currently for my longer-term investors. As gold prices move higher, I expect the share prices of these companies to outperform gold prices, just as they've done historically.

If gold shares simply return to their historical relationship to the gold bullion price, there is 40-60 per cent upside from current levels even if the gold price does nothing at all.

Is this why a serious gold investor should have a position in your fund for a portion of his portfolio? How is your recent performance?

We started investing our Shariah-compliant portfolio on September 19, 2008 and returned to our seed investor, the Dubai Multi Commodities Centre, a positive 4.94 per cent through the balance of 2008. I credit Ahmed bin Sulayem, Executive Chairman of the DMCC Authority, and his colleagues there for their vision as contrarian investors during this very turbulent period in the markets. This positive performance compares favourably to a negative return for our benchmark, the XAU during the same period. Back to your original question: Yes, indeed, our fund belongs in an investor's portfolio because it complements his overall gold exposure when gold prices are volatile.

Why should precious metal stocks perform any better in 2009 than in 2008? Surely the downside risk to stock markets is still

very high. Gold and silver equities sank with the world stock markets last year – will it be different this time?

The case for improved performance in 2009 is a higher gold price plus the extraordinary value that the gold shares represent at this particular juncture as described in my answer to your earlier question. When the inflationary policies, both monetary and fiscal, of world governments finally take hold, gold should trade well above \$1,000 per ounce. When the markets view \$1,000 an ounce as a floor rather than a ceiling, gold shares should enjoy a significant rally.

Investors are worried about the outlook for the US dollar given the massive bailout and stimulus programs. This looks highly inflationary and gold positive. But what makes you think central banks will not do something about it before precious metal prices take off?

I doubt there is a central banker alive that has sufficient courage or knowledge of how to remove this monetary punch bowl of epic proportions. After what has happened, it is hard to believe there is anyone left on the planet who believes in the competence of central bankers.

You are running a gold fund, but do you agree that silver actually has the better prospects in a financial crisis? It is more volatile than gold but reserves are very much smaller, and the leverage to increased demand that much greater.

We own both gold and silver stocks. Silver is regarded as a monetary metal but its industrial uses are more significant than gold. This accounts for its greater volatility. However, we have significant exposure to silver through our equities.

Is there really any real difference between an investment strategy that accommodates Shariah and the conventional strategy for your limited partnership and offshore fund?

The differences are minimal. Gold mining companies in general do not employ debt to finance their operations. The business activity of mining gold or silver is straightforward. Their presence in many parts of the developing world is a force for social and economic progress.

There is very little in our universe of potential investments that does not qualify due to our Shariah guidelines. Aside from the fact that we earn no interest on the small cash balances in our Shariah portfolio, everything else – investment strategy, research and stock selection – is identical to our process in managing our conventional portfolios.

Some investment managers considering managing according to Shariah compliance are intimidated by the restrictions they assume will come with that. But you say you haven't found any impediments. Are precious metals just inherently acceptable to Shariah-compliant investors?

I would not say that gold mining companies are inherently acceptable, but for the reasons stated above, they tend to fall within Shariah boundaries. There will always be exceptions, but that is what the

Shariah screening process is for.

**What is your forecast for the gold and silver price in 2009?
How high do you think gold and silver will ultimately go and
within what timeframe?**

I believe that both gold and silver prices will rise to new highs in the coming year. That would be in excess of \$1,000 an ounce for gold and \$20 an ounce for silver.

The macro-economic forces are lined up for both metals to significantly exceed these targets, but I have been in this business long enough to know never to connect a specific price forecast with a specific date.

My advice to all of your readers is to suggest that in today's uncharted macroeconomic waters, some exposure to the precious metals sector makes a lot of sense. One does not want to be too clever about timing the entry point exactly.

Who's John?

John Hathaway, Senior Managing Director, is a Portfolio Manager and a member of the Investment Committee at Tocqueville Asset Management LP.

He is also a Director of Tocqueville Management Corp, the General Partner of Tocqueville Asset Management.

Hathaway has 38 years of investment experience and manages the Tocqueville Gold Fund, Tocqueville Gold Partners and separate accounts for individual and institutional clients following a gold strategy.

Prior to joining Tocqueville in 1998, Hathaway began his career in 1970 as an Equity Analyst with Spencer Trask & Co. In 1976 he joined the investment advisory firm David J. Greene and Company, where he became a Partner.

In 1986 he founded and managed Hudson Capital Advisors followed by seven years with Oak Hall Advisors as the Chief Investment Officer.

His qualifications include a bachelors degree from Harvard College, an MBA from the University of Virginia, and he is a CFA charter holder.

Top Gold Fund & ETFs by performance

Fund	% Nav Change to Jan 23
SLV iShrs Silver Trust ETF	5.8
GLD SPDR Gold Shares	2.3
INPMX Riversource Prec MtlsA	1.6

RYPMX Rydex Prec Metals	1.5
BGEIX Amer Cent Global Gold	1.4
INIVX Van Eck Intl Inv GoldA	1.3
TGLDX Tocqueville Gold	1.3
PMPIX Profund Prec Mtls Ultr	1.1
OCMGX OCM Gold	0.9
GDX Mkt V Gold Miners ETF.	0.8

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