After the Gold Rush

Precious metals producers are in the doghouse. Is it time to buy **mining stocks**?

BY GREG BROWN

THE PAST FEW YEARS HAVE been heady times for gold investors. After years of steady rises that put stocks to shame, the metal soared to an all-time high in August 2011, breaking $1,900 an ounce.

Longtime gold advocates often mention gold mining investment in the same breath as buying the actual yellow metal, citing the effect that a rising gold price can have on the stock prices of producers.

But a funny thing happened on the way to the most recent gold boom: The miners collapsed.

Over the past two years, a popular proxy for gold, the SPDR Gold Trust ETF (GLD), roared to above a 20 percent return as the metal spiked.

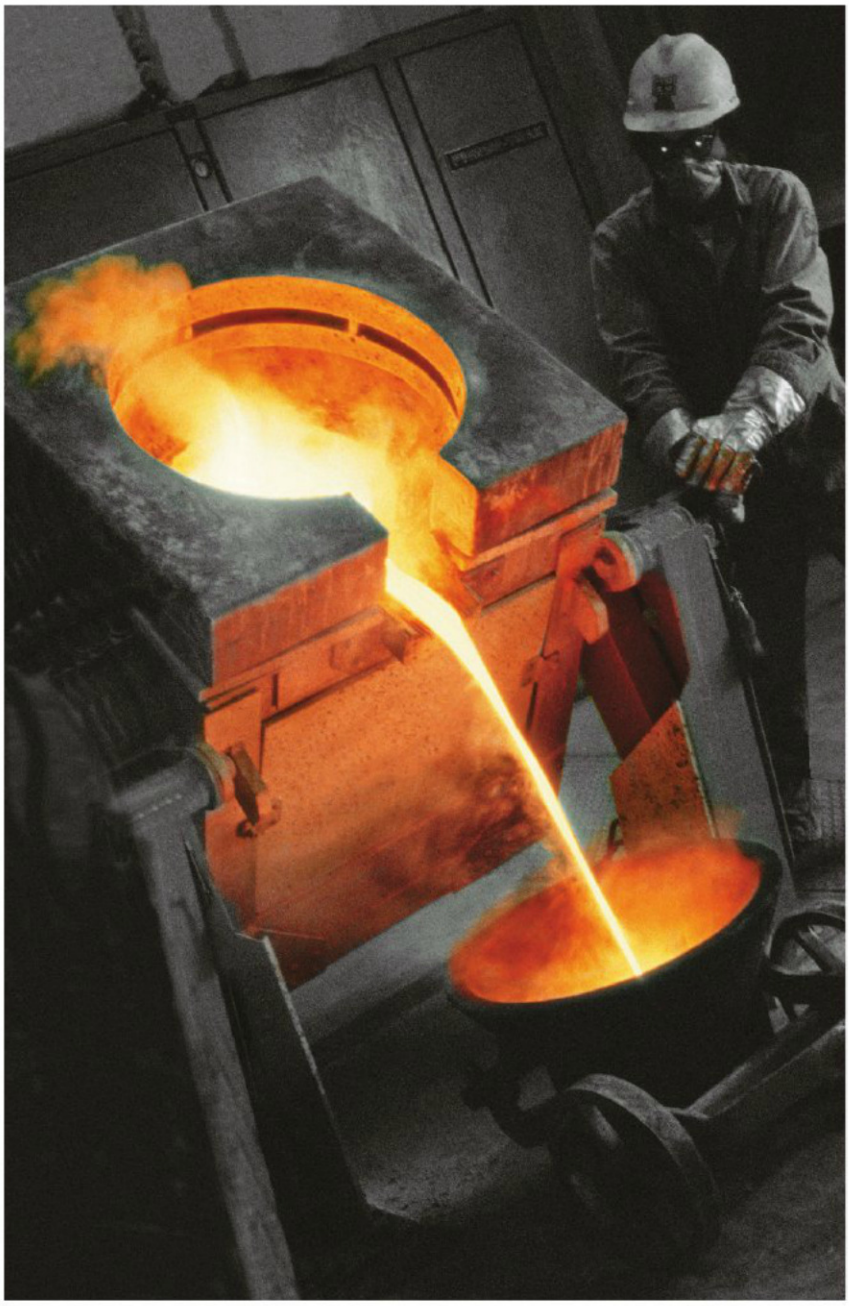
Meanwhile, a popular proxy for the large-cap mining industry, the Market Vectors Gold Miners ETF (GDX) seemed to keep up for a bit — then plummeted to a 20 percent negative return over the same period.

What's going on? And are gold mining stocks a bargain now? First, gold is very likely to take another run upward, says Greg Werlinich, president of Werlinich Asset Management, an independent investment adviser in Rye Brook, N.Y. "Gold is still in a very strong, long-term uptrend," Werlinich tells Newsmax.

"The price of gold has increased every year for 11 years, since 2001, and I expect that to happen again this year," he adds.

Werlinich expects gold to cross the $2,000 mark at some point in the next few years.

As for the gold mining companies, they've been socked by the types of costs that any intensive industrial operation must face — pricey energy,



GOOD AS GOLD? Gold mining investment has long been touted as a boom for investors. But some experts say the metal itself does far better over time.

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labor disruptions, expensive equipment — you name it.

Expect a recovery for the gold miners, says Werlinich. He points out that the big mining firms have stopped hedging the price of gold, a technique used to avoid damaging price drops. That should tell you that the miners, at least, expect higher prices to come, he says.

James Young, senior portfolio manager for wealth manager Sanibel Captiva Trust Co. in Sanibel, Fla., is less sanguine about gold from here — and he's been a gold bull for some time now.

"The gold mining business is a tough business to be in," Young says. To make money, it takes excellent management, strong cost controls, and the ability to locate proven, recoverable reserves.

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>
> **— Greg Werlinich, investment adviser**

Even if all that goes right, there's no guarantee that the gold price will be high enough to generate strong earnings, he explains.

"I think it's a permanent change for this particular bull market cycle. The risk-reward ratio for owning gold or gold derivatives is greatly diminished," Young tells Newsmax.

"We've had a 650 percent increase in the price of gold. We have maybe another 50 percent increase ahead, unless the world ends," Young says.

In addition, retail investors today can more easily buy gold, thanks to ETFs. Some, he believes, are choosing the metal over the miners at the expense of miners' share prices.

Young still likes gold as a hedge against the "end of the world," as he puts it, an event which could take the form of a dramatic decline in the value of the U.S. dollar.

Nevertheless, he says, even that outcome seems less likely than a few years ago. "The problems the world faces were underappreciated before," Young says, adding, "Now that the problems are well-known, we've probably seen all the appreciation we're going to get." □

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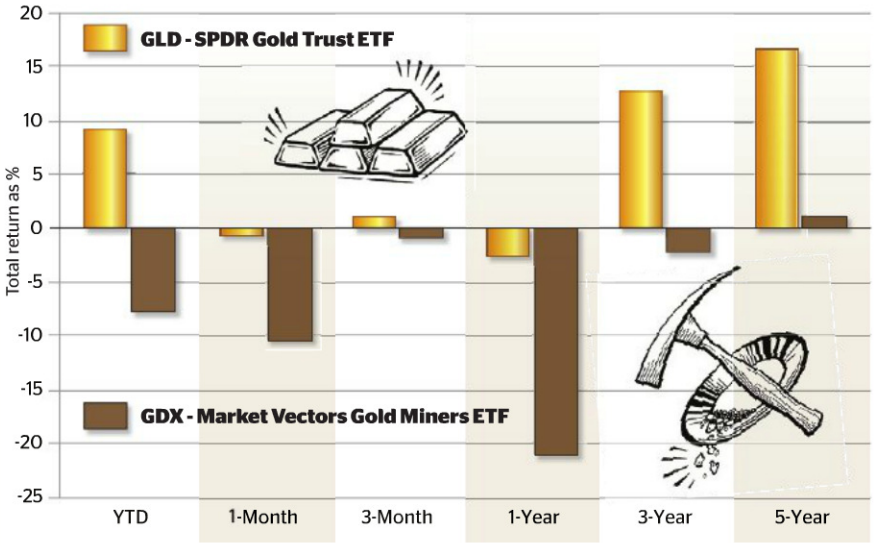
MINING LAGS METAL

Gold mining stocks have sharply lagged gold itself in recent years. The gold bars show the return on a widely held exchange-traded fund (ETF) that tracks gold metal and trades as GLD. The metal fund has held above 20 percent during most of the last two years. In the same period, however, the major ETF that tracks large-cap gold miners, known as GDX, has moved in the opposite direction. Its return has been down sharply and was recently at close to negative 20 percent. □



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SOURCE: Yahoo! Finance/NYSE data, Newsmax chart

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