

# GOLD ANALYSIS

Gold is experiencing a slight pull back after rising almost 50% in the past year and a half. You cannot argue that having gold in your portfolio has been the right call. Look at Under the Radar's Small Cap portfolio, returning over 22% a year in the past 2 years, driven partly by our big position in Evolution Mining (EVN). We like Northern Star Resources (NST) because it has come back on a weak quarter.

## BEYOND \$3000

### 3-year gold price in \$US and \$A

The combination of rising demand from Central Banks and geopolitical uncertainty, all supercharged by ETF buying is propelling gold higher. Whether or not it keeps going up is not as important as the cost of production of gold stocks, which are highly profitable in any currency. You want to be finding a combination of production growth and stability.

#### US\$ Gold Price in the past 3 years



#### A\$ Gold Price in the past 3 years



SOURCE: Gold Price

# **GOLD ANALYSIS CONT.**

## **GOLD THE UNDER-PERFORMER**

It is worth remembering that in the 1970s, gold went from US\$35 to US\$800, before falling back to US\$250 over the following 20 years. The Dow Jones Industrial Average hit around the US\$1,000 level in the late 1960s, went nowhere in over a decade.

The 1980s bull market actually started from below that level. Since then, the Dow is up over 40 times, the price of gold is up only 4x, but the strong run in the 1970s had raised the starting point dramatically.

## **FAST FORWARD TO TODAY**

What we are witnessing now are inevitable swings after a short, sharp run upwards, with momentum both ways being the key, as it has been with all tradeable asset prices. In the past, gold has suffered a turnaround commensurate with its previous popularity.

Gold had risen almost 50% in a straight line over the last year and a half, and the sharp post-tariff move up was the culmination of a trend which had gained more supporters and momentum in recent weeks. It would be surprising if there were not a consolidation and fall in the gold price. But uncertainty remains higher than ever and gold is a beneficiary of that. On the other hand, gold has very limited productive value, hence it can swing aggressively.

## **THE US DOLLAR FACTOR**

Generally speaking, if the US dollar weakens, the gold price rises in US dollars, because of demand from other currencies. A trade war has a destabilising effect on currencies and the global economy, which means that the gold price should increase.

Gold continues to behave like a hedge, rising on market fears and declines, while crypto still behaves like a risk asset, moving in an exaggerated manner in direct correlation with equity and fixed interest markets.

## **GOLD REMAINS A FLIGHT TO SAFETY**

The phenomenon that is difficult to analyse or understand is that central banks often acquire gold for protection or to be moved out of the US dollar trading system.

These actions increased after Russia found that its reserves were frozen, relatively easily by the US. Sovereign governments want the power to go about their business without relying on the good graces of the USA and the dollar-based financial system, which it oversees and to some extent controls.

It is very difficult to quantify the impact of these impulses, but it's fair to say they are more likely to trigger safety-based behaviours than under many previous US regimes.

## **INVESTMENT CONCLUSION**

Gold is a proven hedge, but one whose price is impossible to predict. One thing we do have a handle on is the companies we cover, their production profile and the cash flow they should generate at different gold prices.

Gold mining is a difficult business and Under the Radar has invested in a number of different stocks over the years. The ones that have turned out best are those that have quickly diversified their production, such as [\*\*Evolution Mining \(EVN\)\*\*](#) and [\*\*Northern Star \(NST\)\*\*](#).

There are a number that are improving at a rapid rate and becoming higher quality, including [\*\*Ramelius Resources \(RMS\)\*\*](#), [\*\*Pantoro \(PNR\)\*\*](#) and [\*\*Emerald Resources \(EMR\)\*\*](#). Please check them out on our website.