How to bet on a gold bull market

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Agnico Eagle Mines Ltd. is reopening its Canadian Malartic mine west of Val-d'Or in northwest Quebec after the provincial government designated mining as an essential service.

HANDOUT

Gold has taken on a new shine amid the current economic crisis as well as massive central-bank stimulus and government spending resulting from the COVID-19 pandemic.

Comex gold futures surged to a high of US$1,788 an ounce last week before retreating to around US$1,712, based on hopes that a drug could become available to treat COVID-19 and a U.S. plan to reopen its economy. The precious metal's recent high is not far from its 2011 peak of just more than US$1,900 an ounce. Silver, which usually trails gold's rise, is trading at around US$15 an ounce – well below its 2011 peak of almost US$50.

Miners have shuttered operations due to the pandemic, but Agnico Eagle Mines Ltd. (AEM-T) and others are reopening mines in regions such as Quebec and Argentina.

We asked three portfolio managers how to play this sector.

DAVID MACNICOL, PRESIDENT AND PORTFOLIO MANAGER, MACNICOL & ASSOCIATES ASSET MANAGEMENT INC. IN TORONTO

Gold is poised to climb higher and is an asset worth holding in a portfolio as a store of real value and a hedge against inflation, Mr. MacNicol says.

His target for bullion is US$2,000 an ounce by year-end and US$2,200 in the longer term.

"I have been invested in gold along with my clients since 2002. We have a 10- to 20-per cent weighting in physical gold and larger-cap miners," he says.

"We believe in gold because we're concerned about the [high] debt levels in the world – particularly debt as a percentage of gross domestic product (GDP). Right now, the U.S. has a debt-to-GDP ratio that's greater than 100 per cent."

The U.S. government's US$2.2-trillion relief package announced in March to shore up its economy and talk a week later about a further US$2-trillion for infrastructure spending "makes people realize that it's creating money out of thin air," Mr. MacNicol says.

"I think we are in the very early stages of inflation. Five years from now, inflation will be higher. Gold is one of the best inflation hedges," he says.

Mr. MacNicol and his clients hold physical gold through BMG Bullion Fund, a diversified mutual fund that has equal amounts of gold, silver and platinum. The metals are allocated, insured and held in a vault with Bank of Nova Scotia.

Among gold equities, he favours Barrick Gold Corp. (ABX-T) and Agnico Eagle for their strong management and quality assets as well as Franco-Nevada Corp. (FNV-T), a royalty play. He also likes Aurania Resources Ltd. (ARU-X), an Ecuador-focused junior miner.

Among exchange-traded funds (ETFs), he recommends VanEck Vectors Gold Miners ETF (GDX-A) which owns larger miners. Once the price of gold climbs past its 2011 high, VanEck Vectors Junior Gold Miners ETF (GDXJ-A) is worth considering, he adds.

JAIME CARRASCO, VICE-PRESIDENT AND PORTFOLIO MANAGER, CANACCORD GENUITY WEALTH MANAGEMENT IN TORONTO

Gold is a useful diversifier and hedge against systemic risk in the financial system, but the investment opportunity lies with the miners, Mr. Carrasco says.

Risk in the financial system surfaced last autumn when the U.S. Federal Reserve Board injected US$125-billion to calm money markets after a huge spike in the "repo" or overnight loan rates, he says. It was the first intervention since the global financial crisis.

"The Fed started printing money, and that was before COVID-19," he says. "In 2008, we fixed the debt problem with more debt, but that's unsustainable."

Unlike paper money, "gold is an asset that's nobody's liability" and should surpass its 2011 high, says Mr. Carrasco, who sees bullion as money.

The opportunity stems from gold miners, which have become very profitable. But few people have noticed because they've been fixated on riding the bull market and buying the dips, he says. For example, Agnico Eagle's stock has climbed to about $75 a share from about $26 in November 2014.

Mr. Carrasco says he is "very bullish" on gold and silver miners because he expects rising commodity prices and a plunging oil price – a big part of mining costs – will boost profitability.

"I have 60 per cent of my financial net worth in precious metals producers," he says.

He prefers companies with low production costs, strong management, resources in the ground and locations in politically safe regions. Among royalty companies, he likes Franco-Nevada and Metalla Royalty & Streaming Ltd. (MTA-X). He favours gold miners such as Agnico Eagle and Osisko Mining Inc. (OSK-T) and silver miners such as First Majestic Silver Corp. (FR-T) and Americas Gold and Silver Corp. (USA-T).

Mid-tier and junior miners, he says, offer better leverage to rising metals prices.

BOB THOMPSON, SENIOR VICE-PRESIDENT AND PORTFOLIO MANAGER, THOMPSON INVESTMENT PARTNERS AT RAYMOND JAMES LTD. IN VANCOUVER

The recent gold price rally may appear to signal a new bull market for mining stocks, but it has been quietly underway for several years, Mr. Thompson says.

"I have been bullish since 2015, when gold bottomed at US$1,050 an ounce," he says. "I'm even more bullish now because of the money printing."

In the longer term, gold should climb to more than US$2,000 an ounce, but there could be "a little bit of softness" in the short term once shuttered mines reopen, he says. "A shortage of the physical metal now is definitely holding up the price in there."

Investors seeking gold-sector exposure should understand the mining cycle and own the stocks in a bull market because they tend to rise more than the bullion price, says Mr.

Thompson. (His website has an interactive “mining clock” showing the cycle and the best time to buy and sell stocks.)

A bull market for gold stocks has three phases, he says. In the first, the stocks rise but “few people own the sector. We’re now entering the second, when institutional managers start to get involved,” he says, especially after the broad-market collapse. Their money flows to senior miners first.

Junior miners don’t see action until the third phase, when there’s a “speculative blow-off,” which also attracts unsophisticated investors, and silver bullion and stocks take off too, he says. “That will also be near the end of the bull market.”

He says that top picks among Raymond James analysts include OceanaGold Corp. (OGC-T) and Kinross Gold Corp. (K-T) as well as Wheaton Precious Metals Corp. (WPM-T), a gold and silver royalty play.

“I tend to look out longer, so I am positioned more in silver bullion and silver stocks,” he says. “My clients are more heavily in gold stocks and may have royalty companies in the silver space.”