

Are Gold Funds Returning to Shining Form?

Gold funds were the seven best performers across all sectors for July - is this a return to form, or just a short-term recovery?

Emma Wall | 2 August, 2013 | 1:25PM

The seven best performing funds across all investment sectors last month all invested in gold.

Smith & Williamson Global Gold & Resources gained 20%, Charteris Gold increased 25% and popular choice BlackRock Gold & General, run by Evy Hambro, gained 19%.

These figures are impressive, but they are gains from low prior performance. Since they hit record high value in December 2010, both the BlackRock fund and Investec Global Gold have lost 60% of their value to today.

Morningstar analysts say that July's gains are in part due to such a low vantage point - sustained losses over the past year have meant in part that it was only a matter of time before the market corrected itself.

There have been some positive corporate measures. Due to the low gold price, mining companies have been forced to make efficiencies, as margins have been squeezed. These include improved capital discipline, cutting back on unprofitable projects.

Morningstar analysts say July's gains could be sustained - or this could prove to be a 'dead cat bounce'.

How gold funds perform over next six months will be determined by the gold price. In the years leading to 2007, gold equities were closely linked to the gold bullion price - in fact equities regularly outperformed the metal.

Since the recession, gold equities have lagged the bullion price, partly because equity performance in general has been volatile.

Now that efficiencies have been made however, analysts expect the two to be more closely correlated.

Morningstar analyst Oliver Kettlewell said that investors who feel bullish about bullion could consider investing in Newmont Mining.

The company directly links its dividend payment to the price of bullion - offering commodity price exposure with the liquidity of equities.

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