

FE Trustnet News and Research

Is the rebound in gold funds already underway?



By [Joshua Ausden](#) 29 Jul 2013

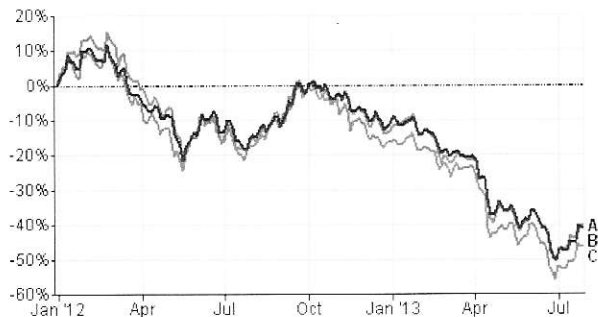
There has been no worse place to be invested than gold equities in recent times, but there could be light at the end of the tunnel.

Gold equities have been in the middle of a perfect storm for the past 18 months or so, sending share prices – and valuations – to historic lows in some cases.

Issues over costs led to a significant disconnect between gold and gold miners in 2011 and 2012, so when bullion itself took a spectacular tumble earlier this year, gold funds fell from already depressed levels.

This, combined with the waning sentiment towards natural resources in general, has seen the HSBC Global Gold index fall more than 46 per cent since the beginning of 2012, with many gold funds not too far behind.

Performance of funds and index since Jan 2012



- A - Smith & Williamson - Global Gold & Resources A Inc in GB [-40.53%]
- B - BlackRock - Gold & General A Acc in GB [-40.97%]
- C - HSBC GLOBAL GOLD INDEX TR in GB [-46.05%]

30/12/2011 - 26/07/2013 Data from FE 2013

Source: [FE Analytics](#)

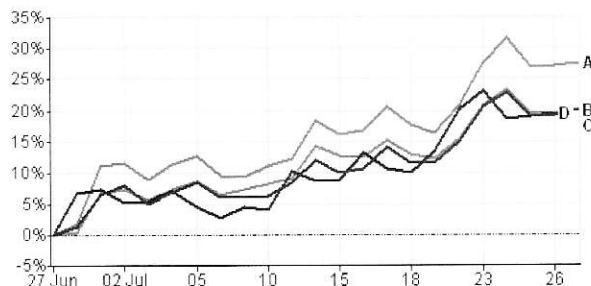
In recent weeks a number of industry commentators have pointed to gold equities as one of the only genuine value plays available to investors at the moment.

The likes of FE Alpha Manager [Iain Stewart](#), who runs the [Newton Real Return](#) fund, have increased their exposure recently, and Troy's [Sebastian Lyon](#) said he remains optimistic about their prospects in the longer term.

While gold funds remain in the red over every significant cumulative period, in the past month there has been a significant uptick in performance, with the HSBC Global Gold index up 20.13 per cent. [Smith & Williamson Global Gold & Resources](#) and [BlackRock Gold & General](#) are up just short of 20 per cent over the period.

The lesser-known Way Charteris Gold Portfolio is up more than 27 per cent over this timeframe.

Performance of funds and index over 1 month



- A - WAY - Charteris Gold Portfolio Elite Ret Acc in GB [27.66%]
- B - Smith & Williamson - Global Gold & Resources A Inc in GB [20.13%]
- C - BlackRock - Gold & General A Acc in GB [20.10%]
- D - HSBC GLOBAL GOLD INDEX TR in GB [19.56%]

27/06/2013 - 29/07/2013 Data from FE 2013

Source: [FE Analytics](#)

Martin Arnold (*pictured*), analyst at ETF Securities, says that valuations in gold equities were so low that a rebound became inevitable.

He points out that valuations remain at historic lows and expects the upward surge to continue as sentiment improves.

"Gold miners have historically tended to trade at a premium to the equity market and their valuations have not fallen substantially below those of most other sectors," he explained.

"There have been a lot of write-offs from gold miners because of the slump in bullion, including Newcrest. Further write-downs may still occur, but it seems that a lot of the downside has been factored into valuations."

Arnold says it has got to the point when gold miners do not even need good news in order to see their share prices rise, because valuations have fallen so low. Gold mining shares are currently trading at an 8 per cent discount to book value, according to ETF Securities.

However, Arnold points out there is improving sentiment surrounding gold equities, which could further help the asset class.

"In the last week or so, we've seen our gold mining ETF rally by around 10 per cent, which is a huge amount," he said.

"Gold bullion has stabilised and I think investors are a little more comfortable with valuations of miners following the write-downs."

"There's also been a lot of turnover at the top of the major gold miners, which has helped matters, as they seemed to have breathed new life into these companies."

The likes of Barrick Gold, Newcrest and Goldcorp have all seen changes in management in recent months.

"With all these factors, I think there is a lot of upside from here. Gold equities are still down around 38 per cent since the beginning of the year, and with the optimism surrounding gold bullion stabilising, I think these factors bode well," Arnold added.

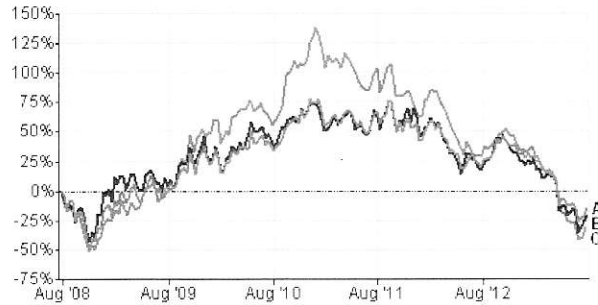


There are currently seven gold-focused funds available in the IMA universe, the highest profile of which is [Evy Hambro's](#) £1.6bn BlackRock Gold & General.

The Smith & Williamson Global Gold & Resources fund is another established option, which puts more of an emphasis on small and mid cap companies.

For anyone who is particularly bullish on the asset class, the CF Ruffer Baker Steel Gold fund is another possibility. It has suffered worse than most in the recent downturn, but has tended to lead the way when sentiment surrounding gold equities has been high and improving.

Performance of funds and index over 5yrs



- A - BlackRock - Gold & General A Acc in GB [-14.95%]
- B - HSBC GLOBAL GOLD INDEX TR in GB [-20.97%]
- C - CF Ruffer - Baker Steel Gold C Acc in GB [-30.91%]


25/07/2008 - 26/07/2013 Data from FE 2013


Source: [FE Analytics](#)

Managers [David Baker](#) and [Trevor Steel](#) also run the Baker Steel Resources Trust, which has a major gold and gold equity content. It is currently on a discount of around 35 per cent.

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