PRECIOUS METALS | FUNDS

Don’t Miss Out on the Rally in Gold Mining Stocks. Here’s What to Buy Now.

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(DREAMSTIME)

If the rally in gold bullion this year has been quiet compared with the roar of artificial-intelligence companies, the surge in mining stocks has been barely a whisper.

Fund investors should be paying attention to these mining stocks but aren’t. While the behemoth $69.1 billion SPDR Gold Shares ↑ GLD 0.52% exchange-traded fund (ticker: GLD) for bullion is up 21% this year, the $14.7 billion VanEck Gold Miners ↑ GDX 1.51% ETF (GDX) is up an even more impressive 26%. Yet, mining-stock funds in Morningstar’s Equity Precious Metals category have seen $1.7 billion in outflows; the VanEck ETF, the largest, alone has lost $1.3 billion. Meanwhile, SPDR Gold Shares, in Morningstar’s Commodities Focused category, has lost $1.8 billion.

In addition to the preference for AI stocks, the miner fund outflows may stem from lackluster performance in the previous two years. Miner stocks lagged behind bullion both on the way down in 2022’s stock bear market—with the SPDR bullion ETF falling 0.8% versus the VanEck miner ETF's 8.8% pullback—and on the way up in 2023's bull market, with the bullion fund up 13.3% versus the mining fund's 10.2%.

Gold Miner Stock Funds Stage a Comeback vs. Bullion

After two lackluster years, precious metals stock funds have been beating bullion recently.

Fund / Ticker	3-Month Return	YTD Return	2023 Return	2022 Return	5-Year Return	Expense Ratio
First Eagle Gold / SGGDX	10.7%	21.3%	7.0%	-1.6%	9.1%	1.19%
iShares MSCI Global Gold Miners / RING	16.4	33.1	12.6	-14.9	8.4	0.39
OCM Gold / OCMAX	19.8	43.9	4.8	-17.3	11.4	1.94
SPDR Gold Shares / GLD	7.8	21.4	13.3	-0.8	10.4	0.40
VanEck Gold Miners / GDX	11.3	26.1	10.2	-8.8	7.1	0.51
VanEck International Investors Gold / INIYX	10.9	23.6	10.1	-13.5	7.1	1.10
VanEck Junior Gold Miners / GDXJ	6.3	24.3	7.8	-14.5	3.9	0.52

Note: Returns are as of Aug. 26; five-year returns are annualized.
Sources: Morningstar, OCM Gold

That isn't normally how miners behave. They typically perform like a leveraged bullion play, since shifts in gold's price have an amplified impact on profit margins—what is known as operating leverage. So, miners should have far outpaced bullion in 2023.

Ironically, the reason for the previous underperformance was the very thing that gold is supposed to be good at fighting: inflation.

Costs to mine gold, such as wages, rose worldwide in the 2022-23 period, but those costs have moderated recently. Inflation rates for miners' capital expenditures, or capex, have gone from double digits last year to single digits this year in most cases, says Thomas Kertsos, manager of the top-performing First Eagle Gold ↓ SGGDX -1.85% fund (SGGDX). "Most companies have said that across the board their cost inflation is going down," he says. It's not just labor inflation, but everything is more or less increasing at a smaller rate than before. It's very good news."

First Eagle Gold is the ideal way for conservative gold investors to play the sector, as it can own both miners and the less-volatile bullion. Its maximum bullion portfolio exposure is typically 25%, but prices of miners have been so cheap this year that Kertsos started favoring them over bullion: "At the beginning of the year, our bullion weighting was 5% or 6%, which is the lowest gold bullion weighting we have ever owned for the past 10 years." After the rally, bullion is now 15%, but Kertsos says there are "still a lot of opportunities in the gold [miner] stocks."

First Eagle's largest holding remains Wheaton Precious Metals, a mining royalty company, which finances mines and receives royalties on their production. A conservative play, Wheaton has benefited from strong low-cost gold production at its Salobo mine in Brazil and its excellent balance sheet. But according to Morningstar, newer holdings, which Kertsos can't discuss, include riskier smaller players such as Canada's G Mining Ventures and larger, more established ones like Kinross Gold.

More aggressive investors could consider the VanEck Gold Miners ETF or, better yet, the same shop's active mutual fund, VanEck International Investors Gold ↓ INIYX -2.09% (INIYX). While the VanEck ETF or the smaller iShares MSCI Global Gold Miners ↑ RING 1.74%

ETF (RING) are suitable investments for miner exposure, historically some miners haven't been well run, so actively selecting the best ones has made sense. Poor management has been especially problematic at smaller, "junior" miners like those in the VanEck Junior Gold Miners ETF (GDXJ), which has underperformed the other VanEck and iShares miner ETFs.

Imaru Casanova, manager of VanEck International Investors Gold, buys both large senior and small junior miners for the fund. Some 28% of the fund's portfolio was in junior miners as of July 31, an increase from the fund's 21% weighting at the start of 2024.

Casanova is emphatic in her belief in active management when selecting such mining stocks: "With our technical expertise and our knowledge of these companies, we can manage the many, many, many, many risks that really this sector is subject to much more effectively."

Casanova has added to her junior miner position to give the portfolio more "torque" in a bull market for bullion, as they are normally the most sensitive to gold prices. Yet the stock market hasn't recognized juniors as such, and her fund—up 23.6% this year—is lagging behind her VanEck ETF competition in 2024. "The [small] developers haven't given us the leverage that we would expect in an environment like this year's," she says. "These names should be on fire."

G Mining Ventures, which Casanova has held for years, is her largest junior miner position at 4% of the fund, but that's because of a recent acquisition, increasing its capitalization.

Newer positions purchased this year include Artemis Gold and Calibre Mining, both based in Canada.

“We had been avoiding Calibre for a long time because they were producing in Nicaragua, which was too risky for us,” Casanova says. “But they completed the acquisition of Marathon Gold recently [in January], which added a [mining] asset in Canada that will be in production soon. That really just transformed the company, de-risked it.” Artemis Gold is also developing a successful mine in Canada, a safer locale than less-stable developing nations.

Another good option for investors is the OCM Gold fund (OCMAX), whose manager, Gregory Orrell, has 40 years of experience. Orrell sees the lagging performance of the junior miners as part of the normal process of investors rediscovering the sector: “I like to say, ‘The popcorn kernels go off at different temperatures.’ So one of the things that happens is that as the gold price cycle matures, you’ll get the majors [i.e., the largest miners] going up, then the intermediates and juniors. And finally the exploration companies start to make a move.”

Let’s hope—for investors everywhere in this long-overlooked sector—that he’s right.

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