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MARKETING COMMUNICATION

GOLD VS. MINERS

WHAT TO CHOOSE?

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There has always been a debate regarding the best way to get exposed to precious metals. It is usually said that it is better to get exposed to gold miners as they have a leverage on gold's performance.

It makes sense. Once a mining company has paid for its expending costs, any dollar rise in gold's price is pure profit. But there are a lot of risks that can affect the performance of a gold mining company, besides gold's price.

The first one is mining location. Often, mines are in highly legally unstable regions. Last year, for example, Resolute mining saw some of its top executives detained in Mali, while Barrick lost the control of one of its mines in the country. As metals catch more attention, countries that have big resources on their soil try to profit from this situation. Apart from Mali, we see more countries trying to get a bigger stake of metals extraction profits. That is the case of Indonesia, Philippines, Panama... There are plenty of examples. That could impact on the miners' profits.

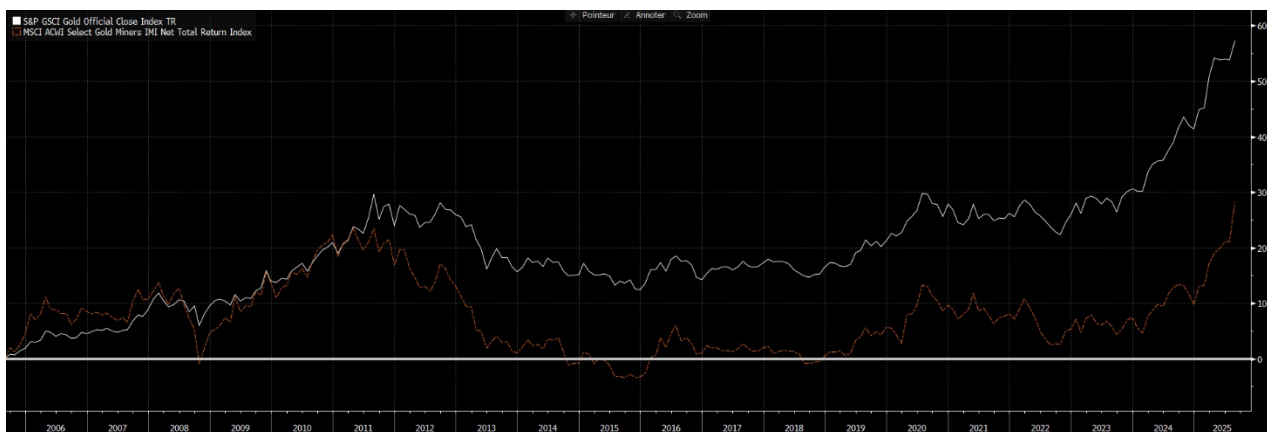
The second reason is the rise in operating costs and the lack of big discoveries in the past two decades. As a mine gets older, the ore grade is going down: a miner will always start digging where the gold's concentration is the best, before enlarging its mining field. As such, metal's concentration is declining through time. And, with it, production costs are rising. In the past ten years, they rose by more than 50% according to the World Gold Council, from less than 1,000 \$ an ounce in 2015 to more than 1,500 \$ an ounce in Q1 2025.

A way to solve this problem would be to open new mines. But there have been no major discoveries for more than two decades now. Considering the time needed to open a new mine, it looks like all the best opportunities are already active and there is no more room to largely expand production. Some of the analysts even think that 2025 could be the year of "peak gold", meaning that gold production will reach a peak this year before starting a long and slow decline. According to CRU, one of the most renowned mining consultants, even if all planned projects come online, gold production could drop by as much as 17% in 2030!

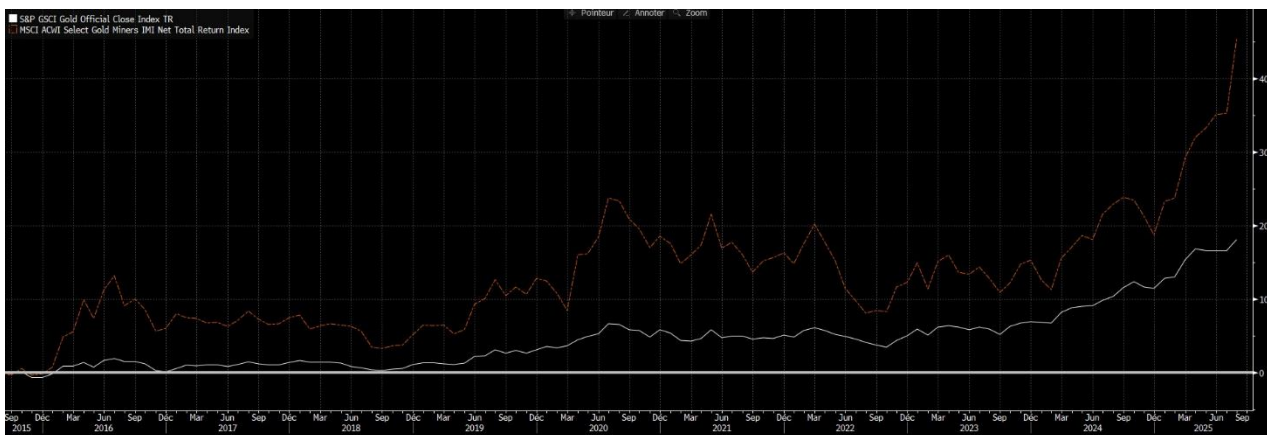
That is the reason why we have witnessed more mergers and acquisitions in the past years: when you can't increase your production on your own, you can buy your competitor and try to rationalize production costs. This could be good news for investors as there could be some premium paid on targeted companies. But it is rarer. The reason is that we already went through this in the 2000's years, when gold prices went from 250 \$ an ounce in 2000 to 1,900 \$ an ounce in 2011: miners had a merging frenzy and paid crazy premiums. For example, in 2012, Barrick gold, one of the biggest gold mining companies in the world, had to take a 4,2 billion \$ write down after its 7,3 billion \$ buying of Equinox Minerals in...2011! These kinds of operations really disappointed shareholders and a lot of them decided that gold miners were too bad managers to keep investing in this business. The other consequence is that today, premiums paid on acquisitions are far more reasonable. For example, Anglo American just announced its merger with Teck resources (not in the gold business, but quite similar) with no premium. There is thus today less value to extract from the gold mining's merging business, as it is less likely to see some of the stocks in a portfolio being overpaid by a competitor...

That's probably the reason why even if gold miners are used to be considered as a "leveraged gold investment", recent history doesn't confirm this opinion. Miners did perform better than gold on a 10 year horizon, because it started just after the abovementioned (2012-2015) where gold miners cleaned up their balance sheets... But on a 5 year or a 15 or a 20 years horizon, gold performed better than mining companies (see graphs below)

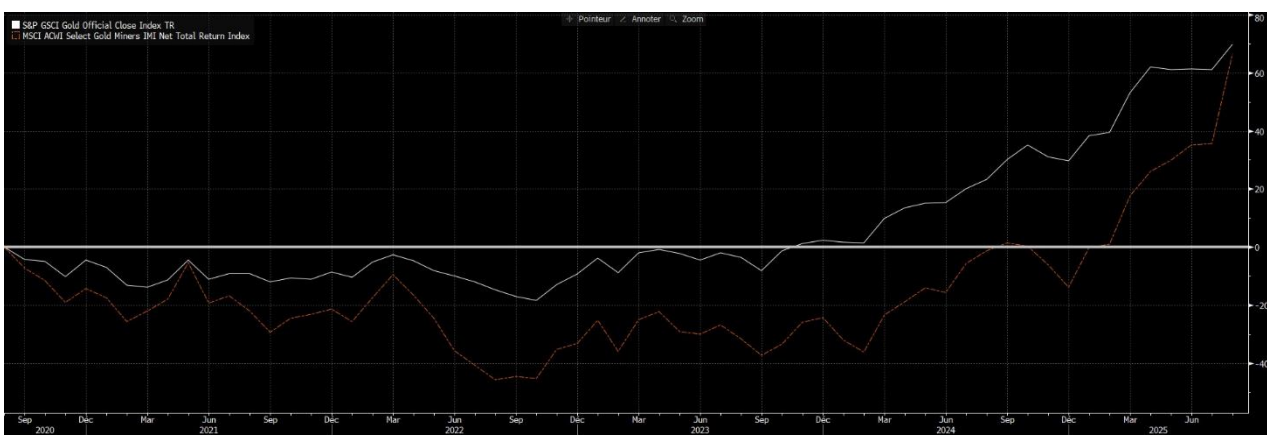
Gold vs. Miners on a 20 year horizon



Gold vs. Miners on a 10 year horizon



Gold vs. Miners on a 5 year horizon



It is also worth noting that gold miners are far more volatile than gold. For example, on the past 10 years, volatility from gold miners was more than two times more than gold's one. Thus the Sharpe ratio of a gold investment is far better.

It is also important to keep in mind that gold miners remain equities. Thus, if investors decide to sell equities because of an economic downturn, miners could be sold even if gold price increases. It is especially true now that more assets are passively managed: when you sell an ETF you don't make any distinction between the product components.

Put altogether, investors should keep in mind: gold can go higher without gold miners, but miners can't go higher without gold. Especially considering the challenge that miners must deal with in the coming years regarding production. As mentioned in a publication by the CAIA association in 2016, "If the question asked is: "Should my overall portfolio include x% in gold in addition to the stock component, or should my overall portfolio include x% in gold mining stocks in addition to the stock component, or is either choice the same?" Our results point to choosing gold. The fact that gold's correlation to equities is substantially lower than mining stocks correlation to global equity indexes implies that gold provides superior diversification benefits." (full article [here](#)).

Investing in gold mining companies is not necessarily a bad idea. And if gold price keeps going higher, they will definitely profit from the situation. But if the investor's purpose for investing in gold is portfolio diversification, hedging from stagflation, from the loss of US central bank independence, or geopolitical conflicts, gold is a far better option than gold miners.

For all these reasons, we consider that gold is a better option than gold miners to get exposed to the precious metal's performance.

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