



Tocqueville Gold Strategy Investor Letter Year End 2013

BY JOHN HATHAWAY ON JANUARY 7, 2014

Despite the painful decline in gold and gold shares that persisted throughout the entire year, we believe that the fundamental case for both remains strong. It seems to us that the correction has left the entire sector sold out and friendless. As contrarians, our experience has been that attractive investment returns arise out of such circumstances. We therefore encourage investors to maintain their commitment and wherever possible to add to positions.

At the current gold price, construction of new mines in most cases does not make sense. Therefore, future mine supply is jeopardized without a substantial and sustained rise in the gold price.

Miners have reduced costs sharply and are therefore highly leveraged even to a modest rise in gold prices from here. Managements seem more likely than ever to remain tight fisted on new capital commitments. Therefore, we expect cash to build on balance sheets and investor pressure to raise dividends.

We also expect to see a trickle of accretive acquisitions by a small number of management groups who view the bombed out status of the share market opportunistically. In those instances in which we have confidence in management's investment acumen, we would be supportive of such steps.

The bullion market has been pressured all year by an artificial supply of paper gold with little or no connection to the underlying physical. We wrote about this more extensively in our website article “Let’s Get Physical.”

We believe that the resolution of the disconnect between paper and physical gold will be a dramatic upside repricing of the real thing. Most important is the steady migration of physical gold bars held in Western vaults to China and other parts of Asia, where they seem unlikely to be returned, other than for exorbitant ransom.

The timing of a resolution so potentially cataclysmic is elusive. It would be like counting the snowflakes necessary to trigger an avalanche. The buildup of systemic risk is there for anyone to see, but to the investment consensus, it is preferable, and perhaps more profitable in the short run, to ignore. A commitment to precious metals and related mining shares is an investment in the almost certain failure of the PhD-standard in central banking, as stated so eloquently by Jim Grant.

Based on our perception of markets, it seems to us that the downside risk is limited. Based on our perception of fundamentals, it seems to us that the upside potential is substantial.

Gold Monitor [PDF]

With best wishes for a prosperous 2014,

John Hathaway

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