



Tocqueville Asset Management L.P.

Tocqueville Gold Strategy

First Quarter 2013 Investor Letter

The bottoming process in gold and gold mining shares continues to be an extended and frustrating affair. Nevertheless, the fundamental rationale for positioning physical bullion and gold mining shares seems more compelling than ever. The metal dropped approximately 4.5% during the quarter, but the mining shares (basis XAU) dropped almost 19%. From the September 2011 peak of 227, the XAU had declined -26% to year end 2012 where it stood at 167. Until the end of 2012, the decline was orderly. The decline accelerated sharply in the first quarter of 2013, almost equaling the percentage decline during the previous 16 months.

The accelerated decline in the first quarter of 2013, in our opinion, suggests a capitulative phase in which investors are giving up on the notion of exposure to gold, and especially gold mining shares. The mining shares, which were already historically cheap at the beginning of the quarter, became even cheaper. Intense liquidation of GLD and other gold ETFs during the quarter (see Chart 28 on p.5 of the appendix) also seemed characteristic of a broad capitulation. Gold, a favorite investment theme two years ago, has become toxic to many.

To recap the factors we believe led to the decline:

- gold became overbought during the threatened government shutdown in August of 2011. As one of our favorite technicians stated, when the price of anything attempts to go parabolic, it must suffer from a hangover.
- the stock market has provided superior returns over the past four years
- the numerous and cumulative sins of gold mining managements wore investor patience thin.
- as conviction in the upward trend of the gold price dissipated, the rationale for owning gold mining stocks disappeared.
- several high profile investment firms (Goldman Sachs, SocGen and others) turned negative on gold fundamentals, and the weight of media commentary followed suit.

Deserving special mention in the category of being useful inverse barometers of contrary opinion is the *New York Times*, which featured on the front page of the 4/11/13 Business Day section: "A Sure Bet Loses Its Luster: Gold, Long a Secure Investment Has Lost 17% of Its Value Since 2011." A brief quote from the article is a paean of shallow conventional wisdom:



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“Now, the worst of the Great Recession has passed. Things are looking up for the economy, and, as a result, down for gold. On top of that, concern that the loose monetary policy at the Federal Reserve might set off inflation – a prospect that drove investors to gold – has so far proved to be unfounded.”

For a contrarian, commentary such as this provides great cheer.

As a hard boiled value investing convict, I am well aware of the perils of bottom picking. Given this caveat, I believe that the precious metals sector has arrived at a significant bottom and that the next leg in the gold bull market is ready to commence. My evidence:

- Gold bullion has withstood intense liquidation by holders of GLD and Comex traders in paper gold as well as withering and intensely adverse commentary by media, brokerage, technicians and assorted soothsayers, especially during the past 90 days. However, the December 2011 low of \$1523 has not been breached, despite three successive assaults.
- The fundamental case for owning gold has improved since year end 2011. Real interest rates remain negative, worldwide quantitative easing has proliferated, and the events in Cyprus demonstrate that uninsured deposits in the commercial banking system are at risk in any resolution scenario.
- Many of the shortcomings of the gold mining sector, both real and imagined, are on the mend. Shareholder dissatisfaction has prompted significant turnover in executive suites. Managements that were clueless, especially with respect to legitimate shareholder concerns, have been replaced. Where there was arrogance and overconfidence, there is now contrition and introspection. Many of the problems that can be fixed, will be, in our opinion. Of course, there will always be exceptions.
- The gold price itself seems poised to begin the next leg of its multi-year bull market. (Please refer to our recent website article for the possible rationale, ["The Investment Case for Gold: Part 2"](#)). When the gold price re-establishes an upward trend, we expect the gold mining stocks to revive and produce very satisfactory returns.

The appended data package shows:

- strong macro fundamentals for gold
- investor sentiment at a negative extreme
- compelling valuations in the mining shares

It seems like a contrarian’s dream scenario to us.



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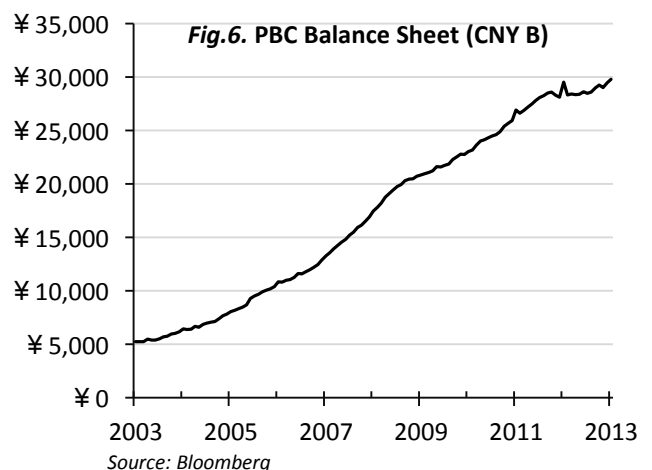
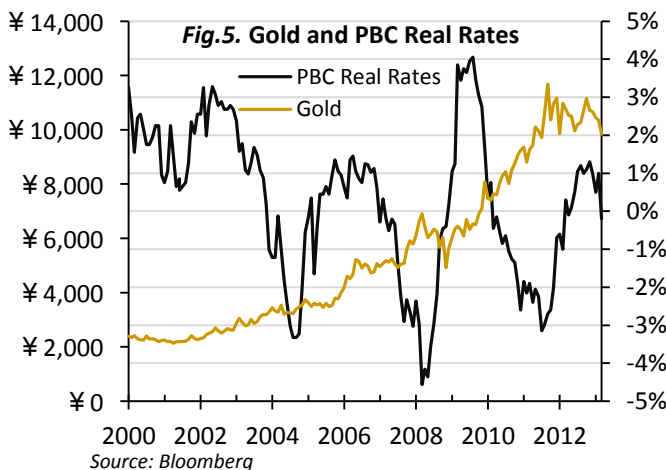
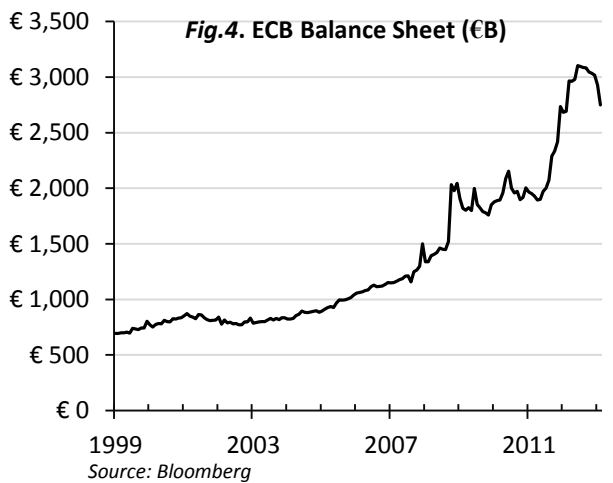
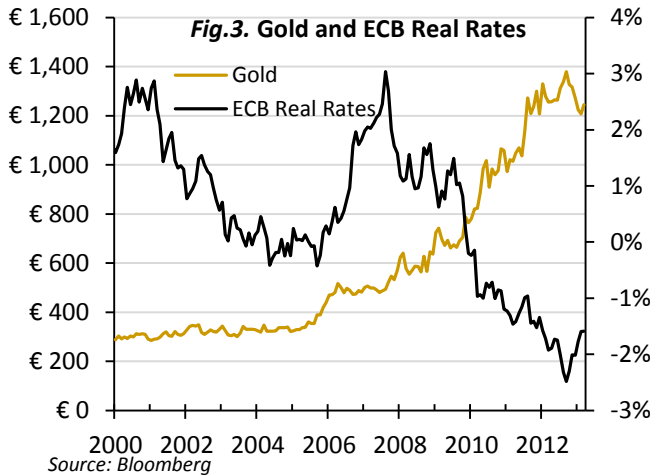
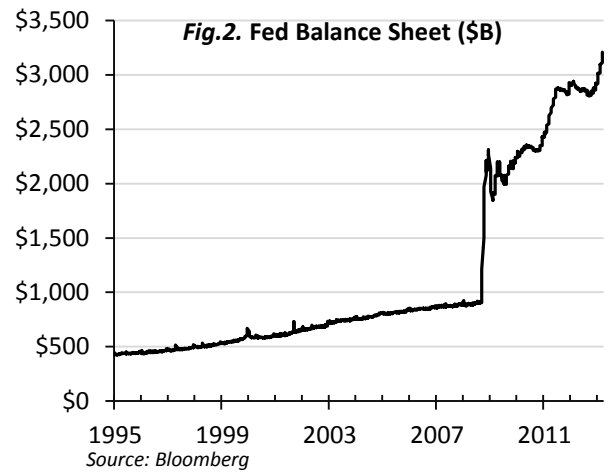
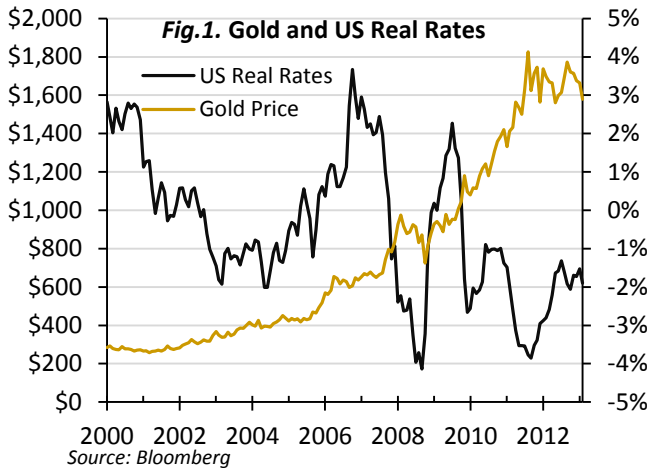
Best regards,
John Hathaway
Portfolio Manager and Senior Managing Director
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April 11, 2013

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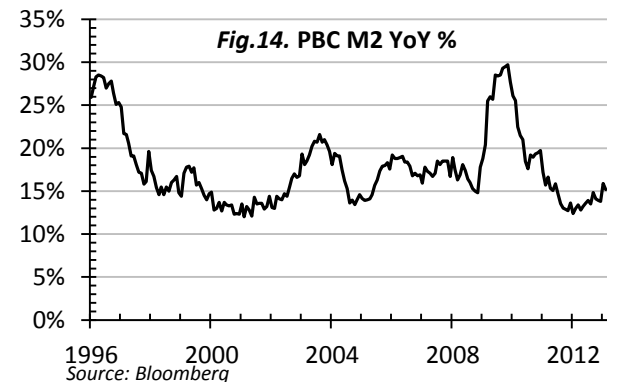
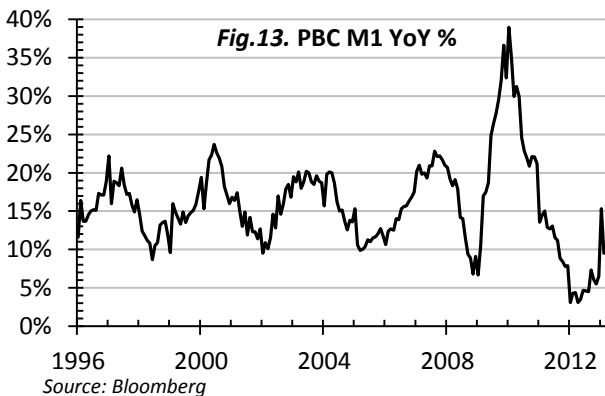
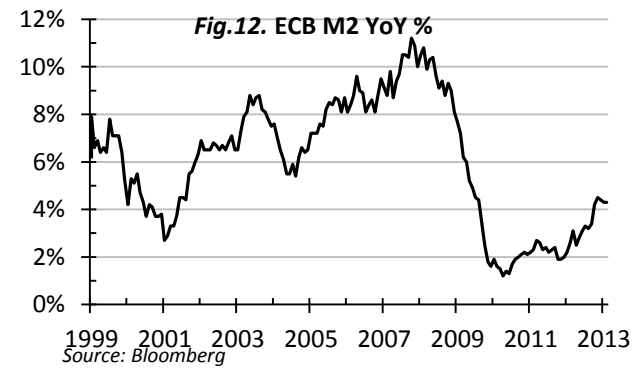
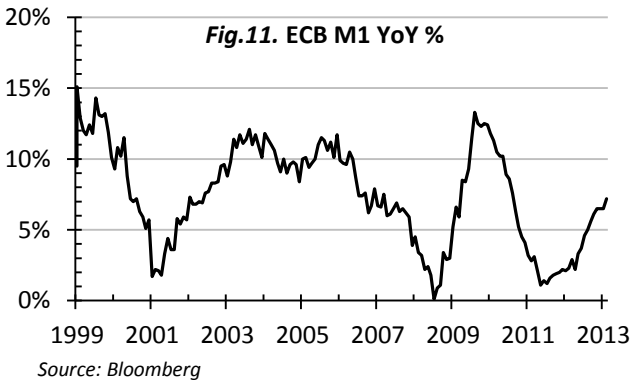
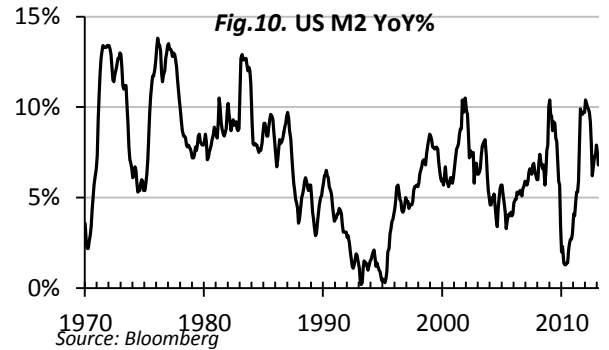
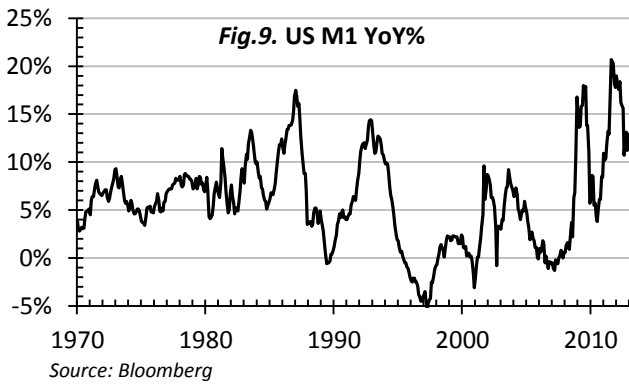
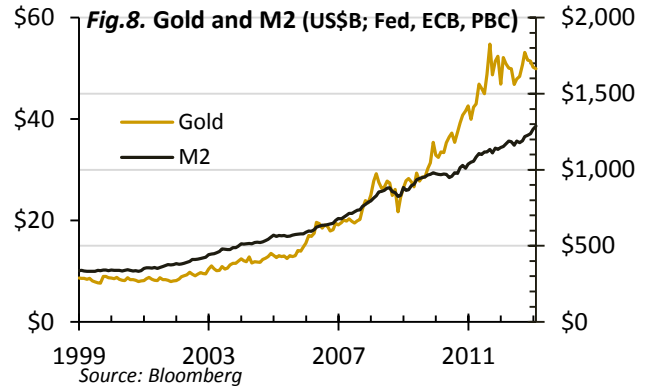
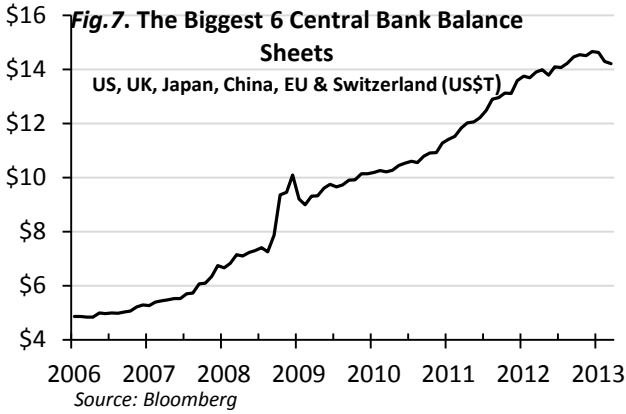
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GOLD MONITOR

Section I. Macro



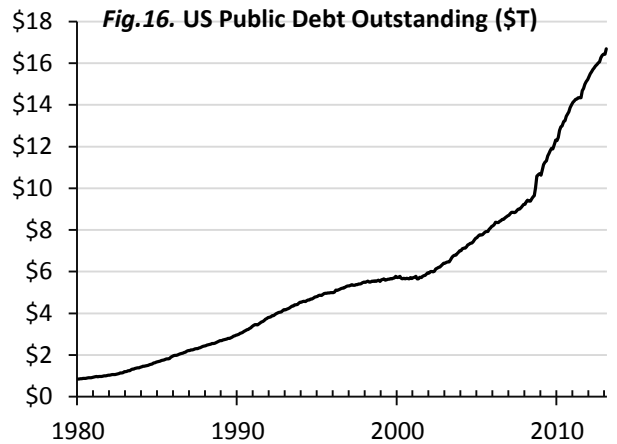
Section I. Macro



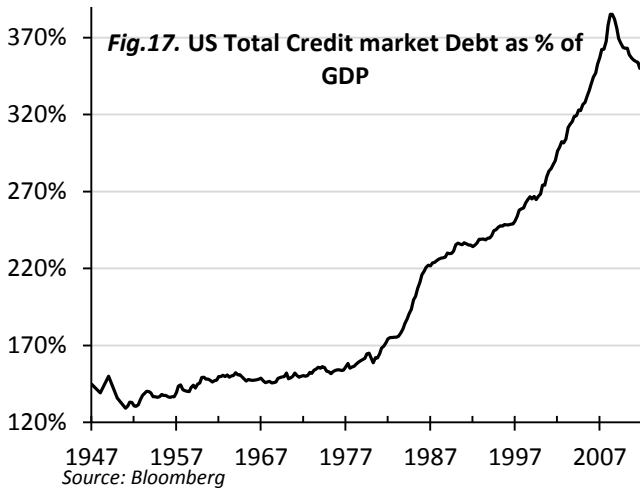
Section I. Macro

Fig.15. Inflation			
2/28/13	US	Euro Area	China
Headline CPI	2.0	1.8	3.2
Core CPI	2.0	1.3	n/a
Shadowstats	9.6	n/a	n/a

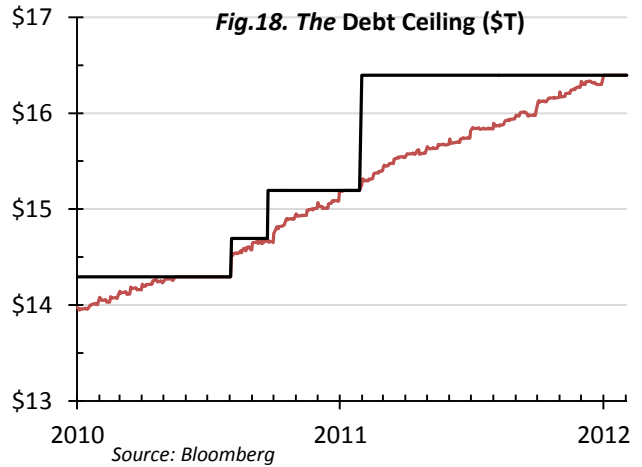
Source: Bloomberg; Shadow Government Statistics



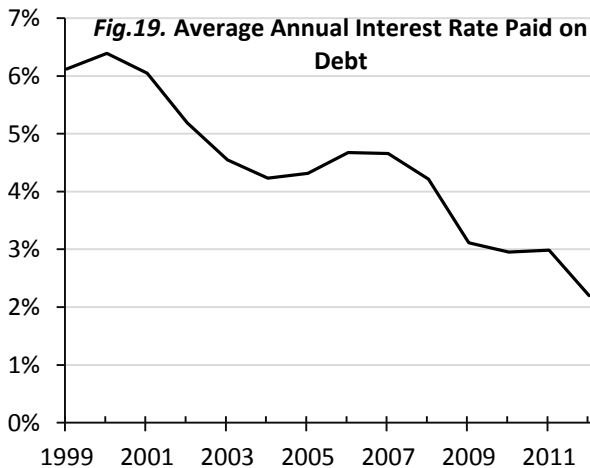
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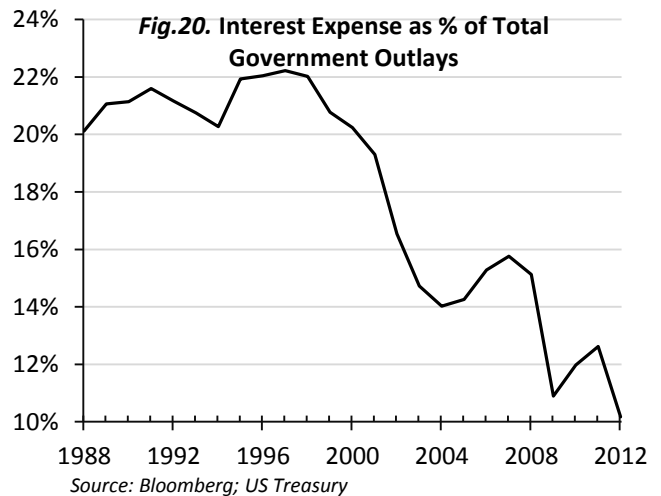
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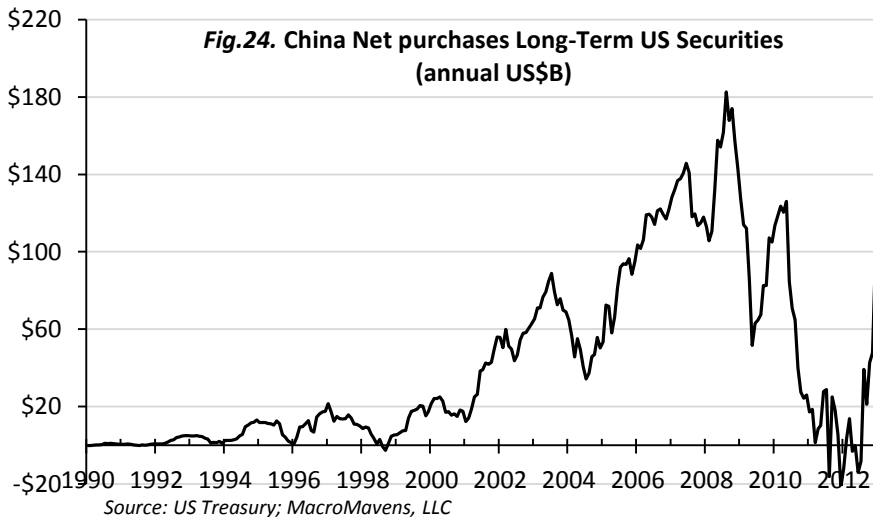
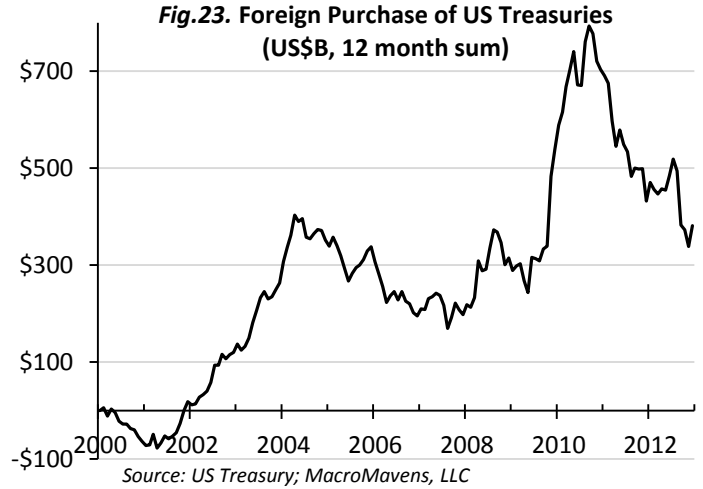
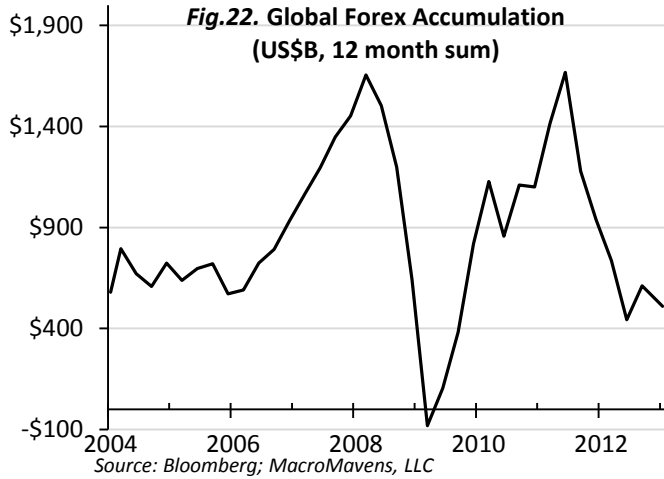
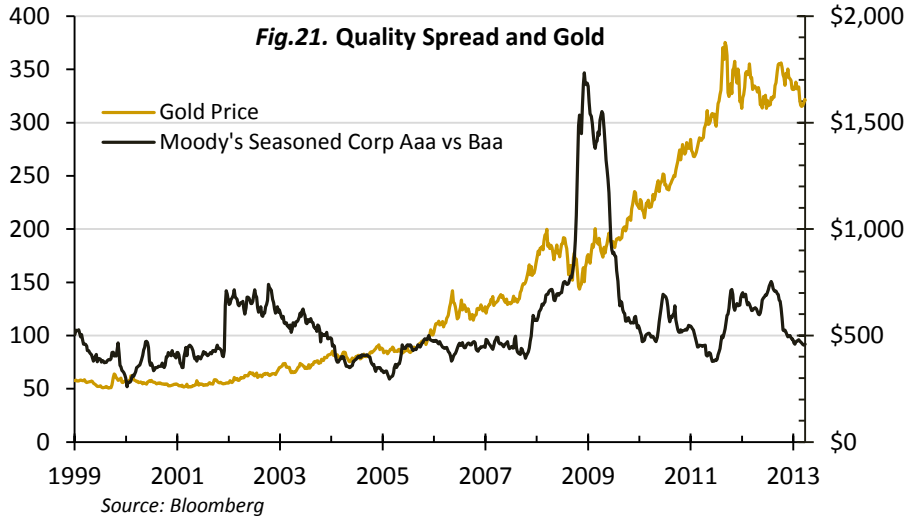


Source: Bloomberg; US Treasury



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Section I. Macro



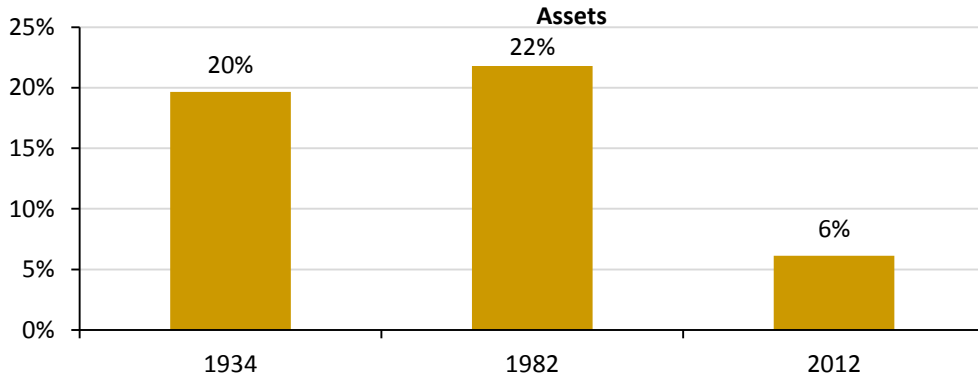
Section II. Gold

Fig.25. Gold Supply and Demand (tonnes)

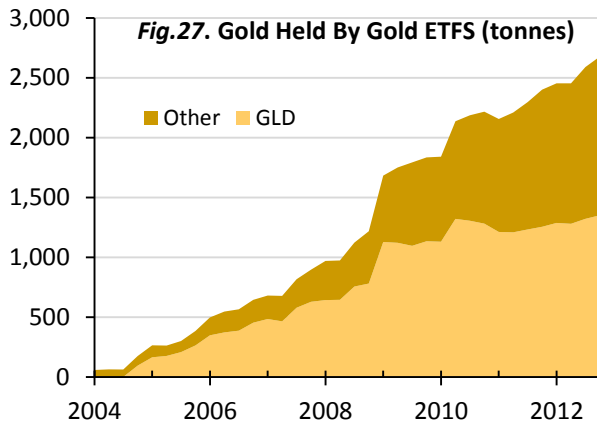
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Supply											
Mine production	2,591	2,592	2,478	2,550	2,481	2,476	2,409	2,584	2,739	2,827	2,848
Old gold scrap	835	944	829	886	1,107	956	1,217	1,672	1,723	1,669	1,626
Traditional supply	3,426	3,536	3,307	3,436	3,588	3,432	3,626	4,257	4,463	4,495	4,473
Net producer hedging	(412)	(279)	(445)	(86)	(373)	(444)	(349)	(252)	(108)	10	(20)
Official sector sales	545	617	497	662	367	484	236	30	-	-	-
Total supply	3,559	3,874	3,359	4,012	3,582	3,472	3,513	4,034	4,355	4,505	4,453
Demand											
Jewellery	2,680	2,522	2,673	2,707	2,283	2,405	2,187	1,760	2,017	1,972	1,908
Other	360	385	416	431	458	462	436	373	466	453	428
Total fabrication	3,040	2,907	3,089	3,138	2,741	2,867	2,623	2,134	2,483	2,425	2,336
Bar & coin retail investment	373	314	396	412	421	446	649	743	1,205	1,519	1,256
Official sector purchases	-	-	-	-	-	-	-	-	77	457	535
ETFs & similar	3	39	133	208	260	253	321	617	382	185	279
Implied net investment	143	614	(259)	254	160	(94)	(80)	541	207	(81)	47
Total demand	3,559	3,874	3,359	4,012	3,582	3,472	3,513	4,034	4,355	4,505	4,453

Source: World Gold Council

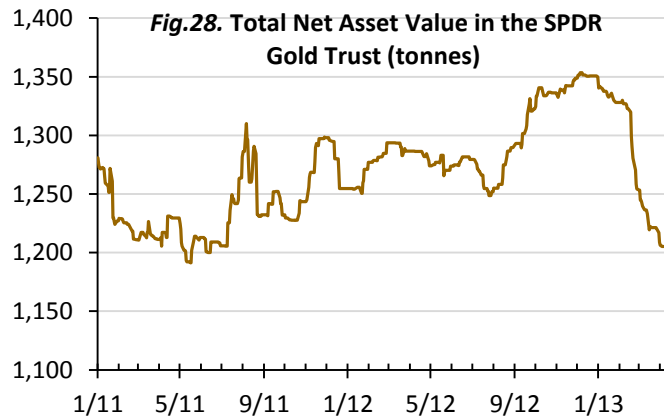
Fig.26. Market Cap of Above Ground Gold as % of Total US Financial Assets



Source: Federal Reserve, World Gold Council



Source: Company Filings, World Gold Council



Source: Company Filings

Section II. Gold

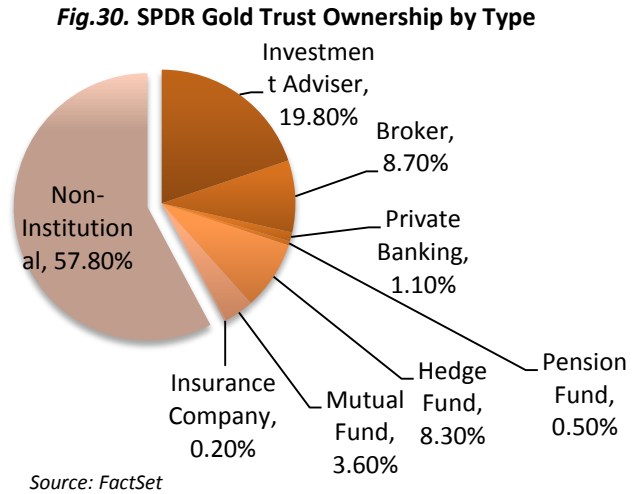
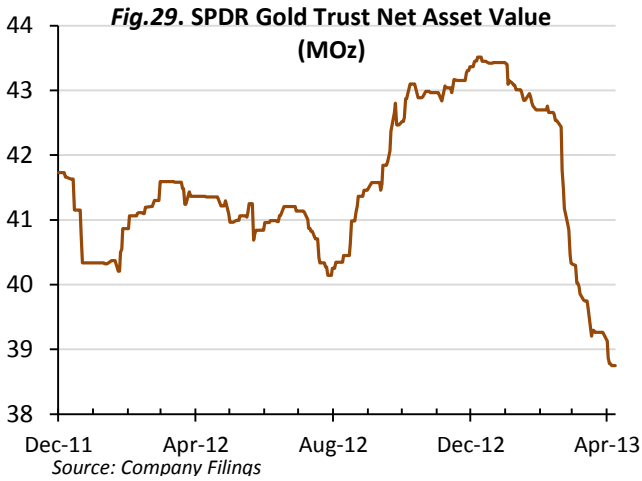
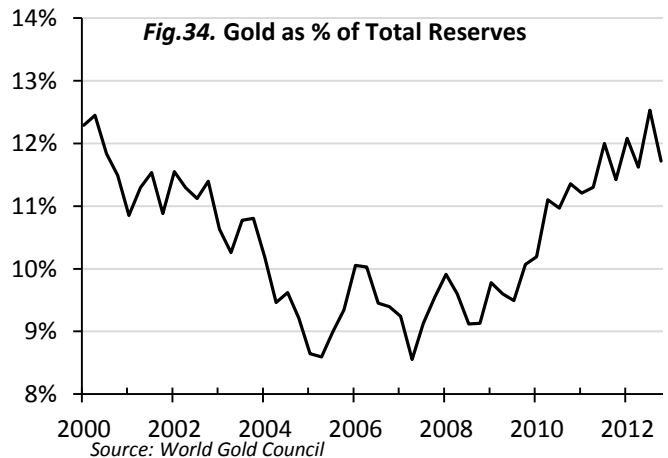
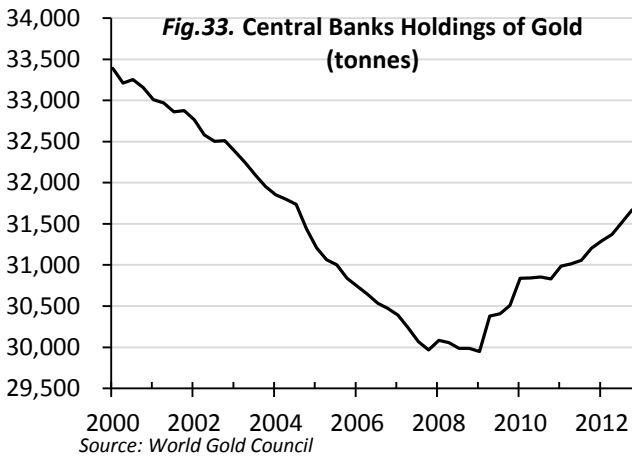
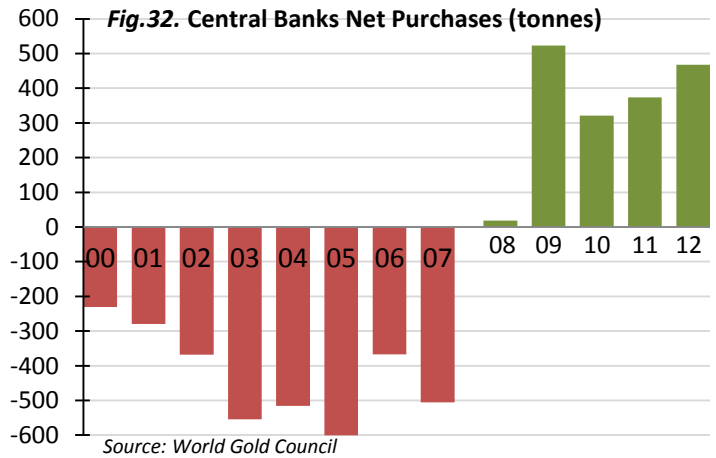
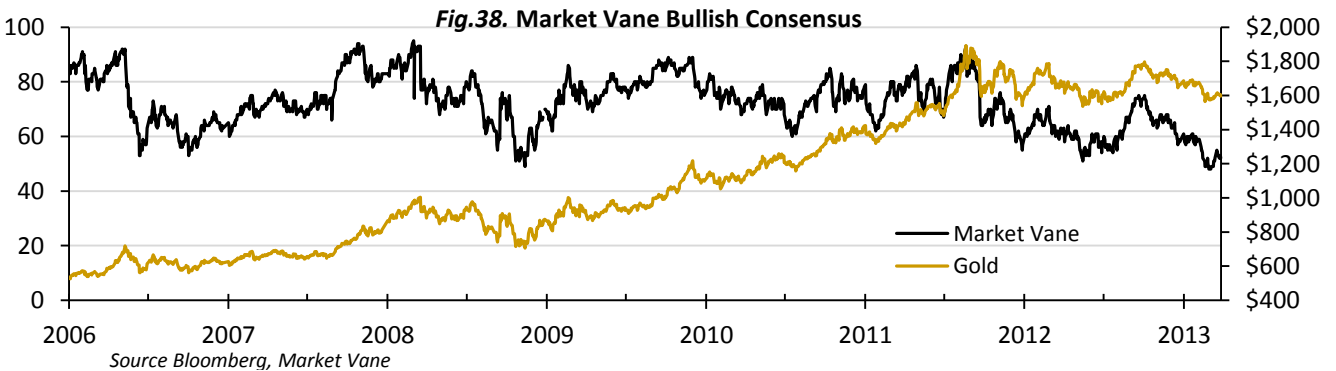
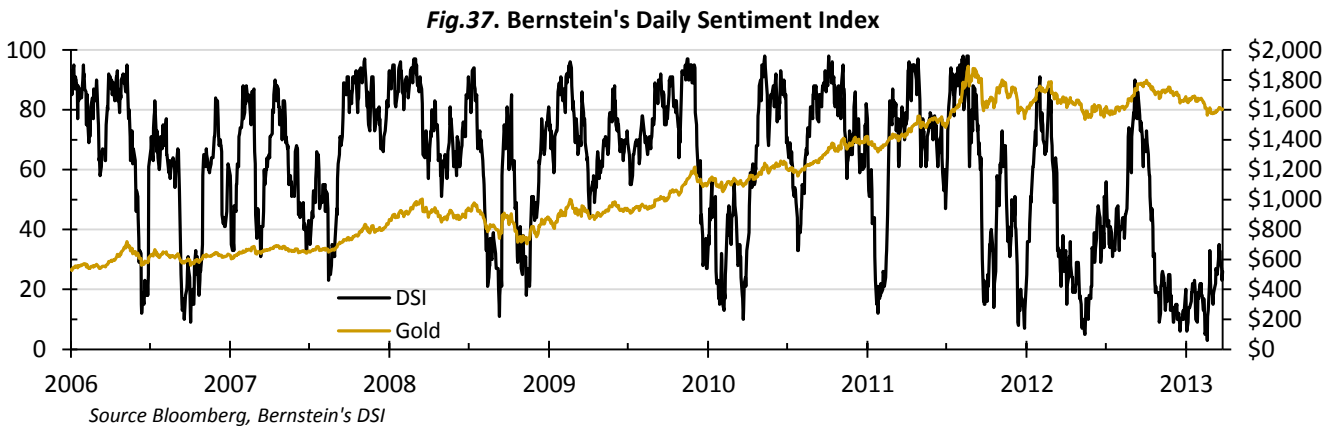
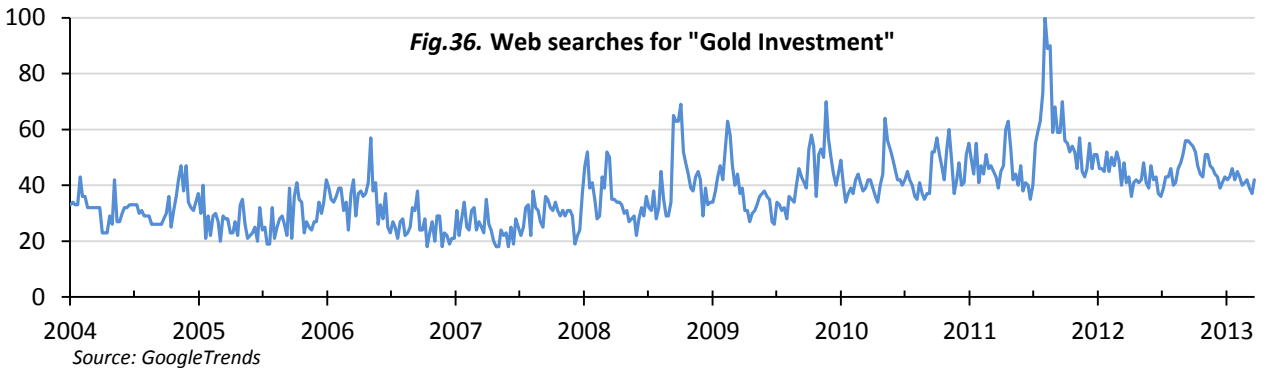
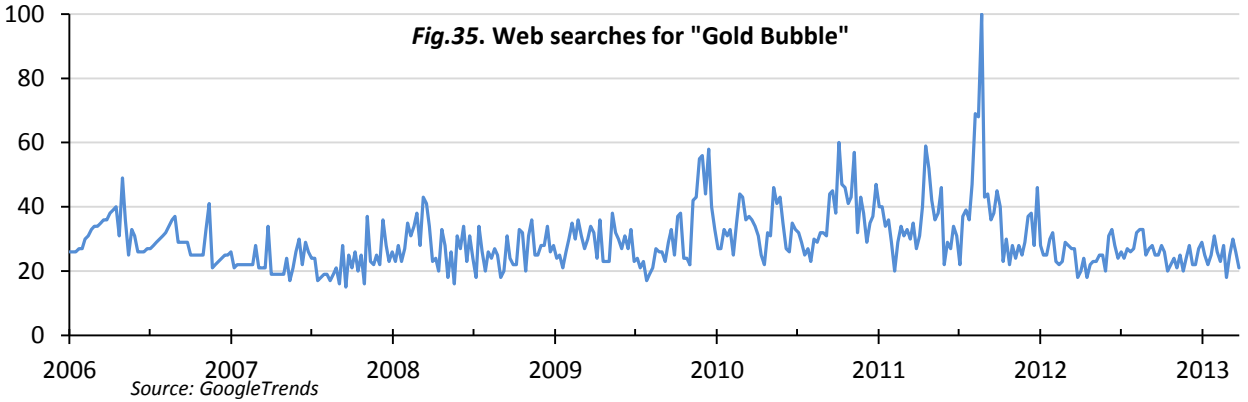


Fig.31. Notable Transaction in 1Q13

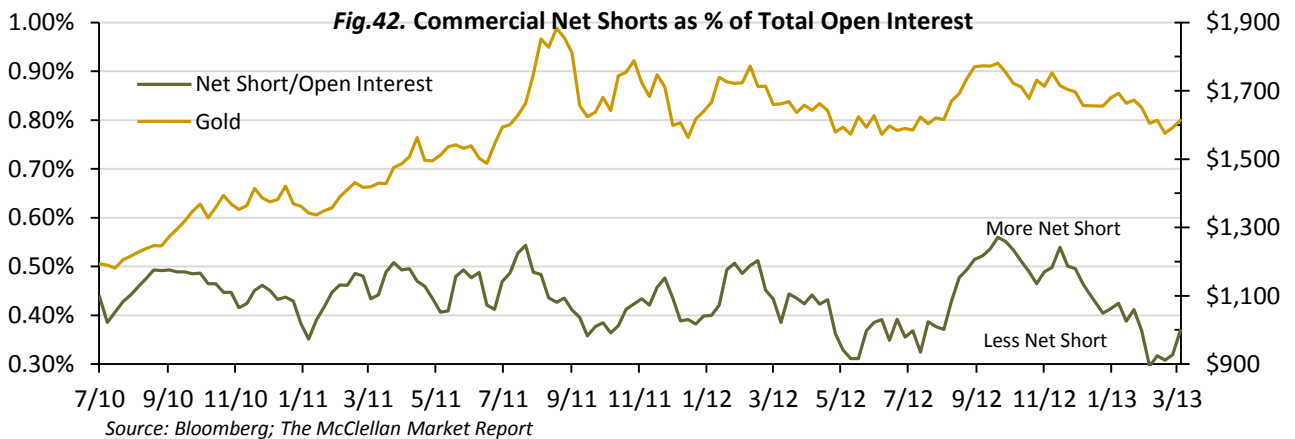
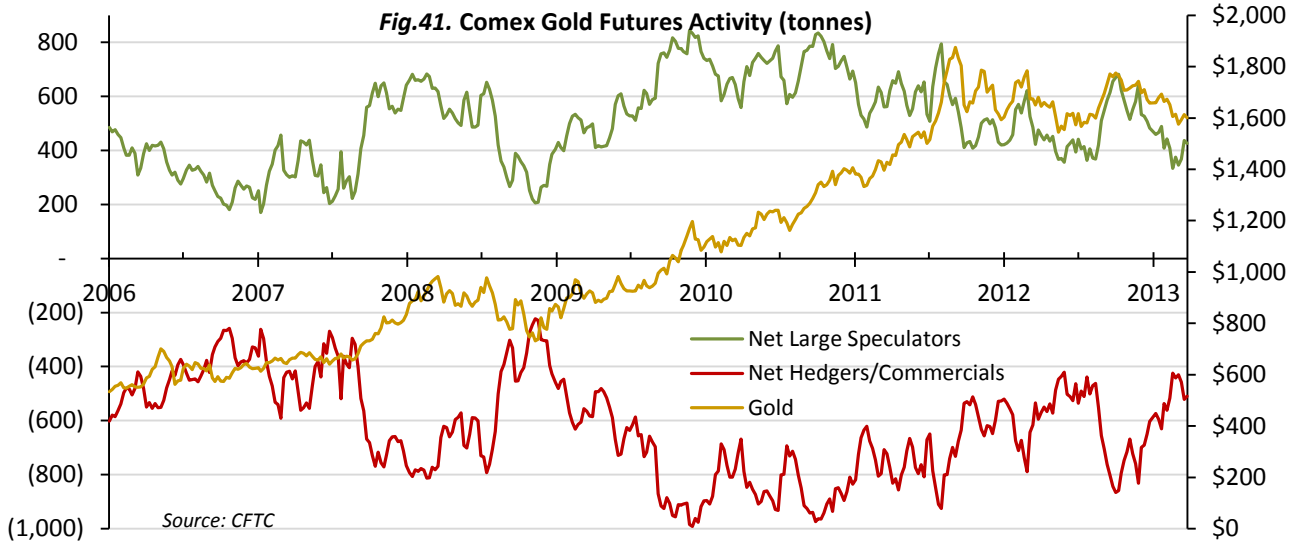
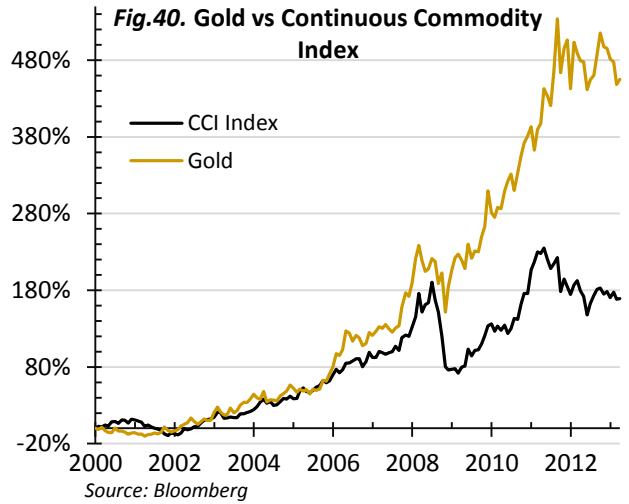
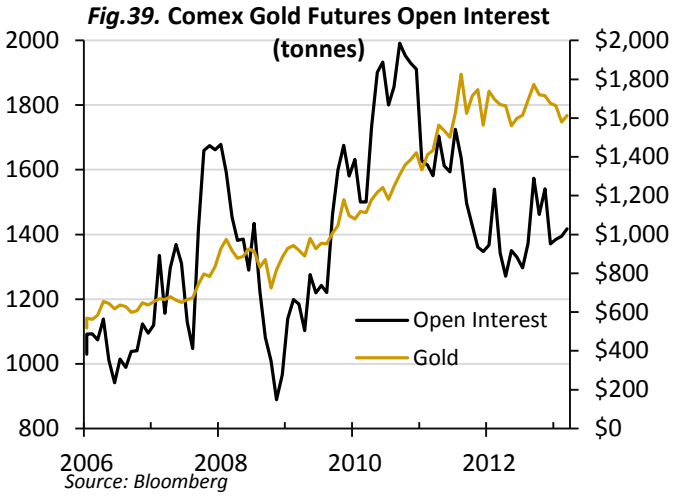
Country	Tonnes	Transaction
Kazakhstan	1.50	Purchase
Korea	20.00	Purchase
Russia	12.20	Purchase
Turkey	10.30	Addition



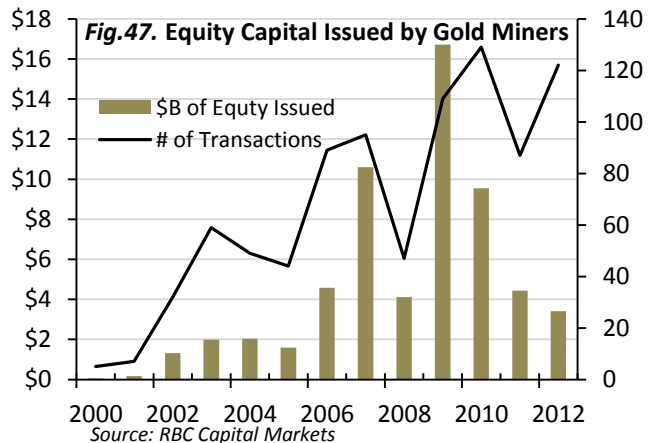
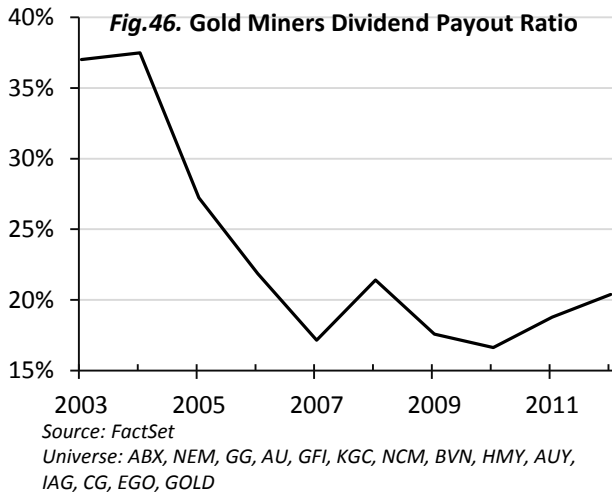
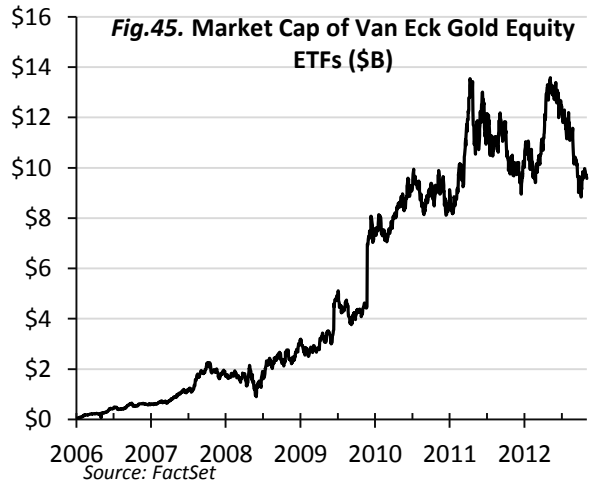
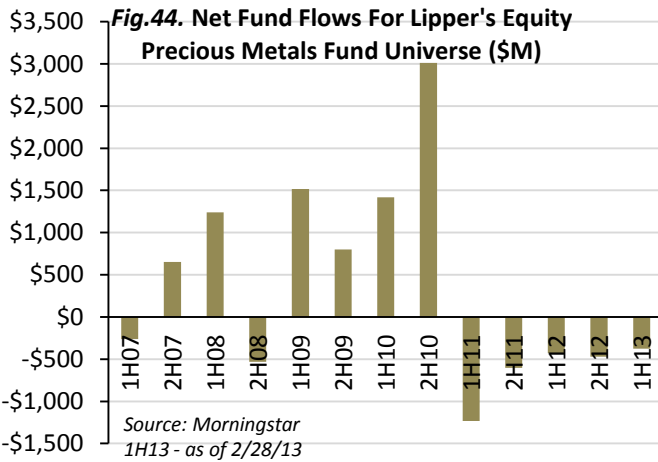
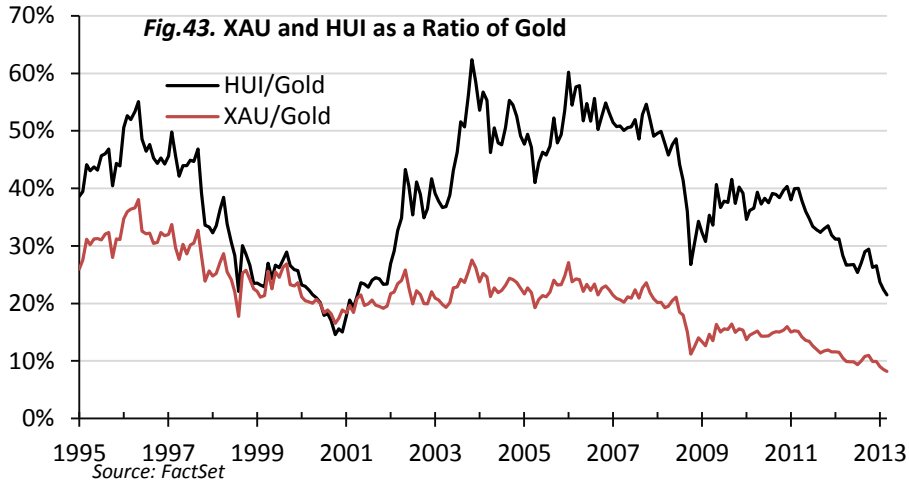
Section II. Gold



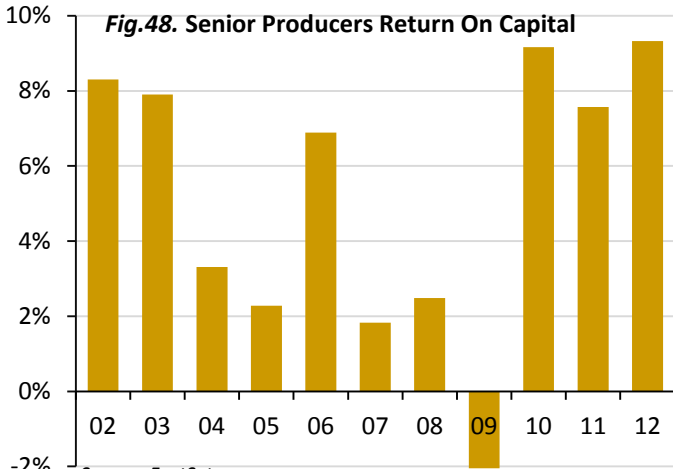
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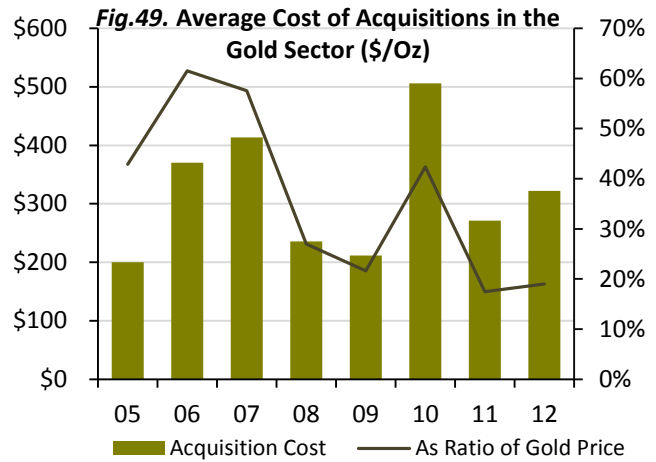
Section III. Gold Mining Equities



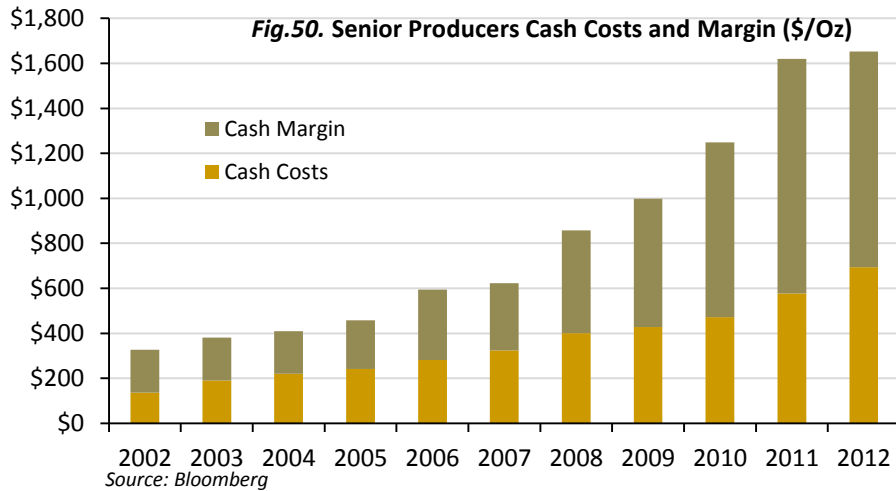
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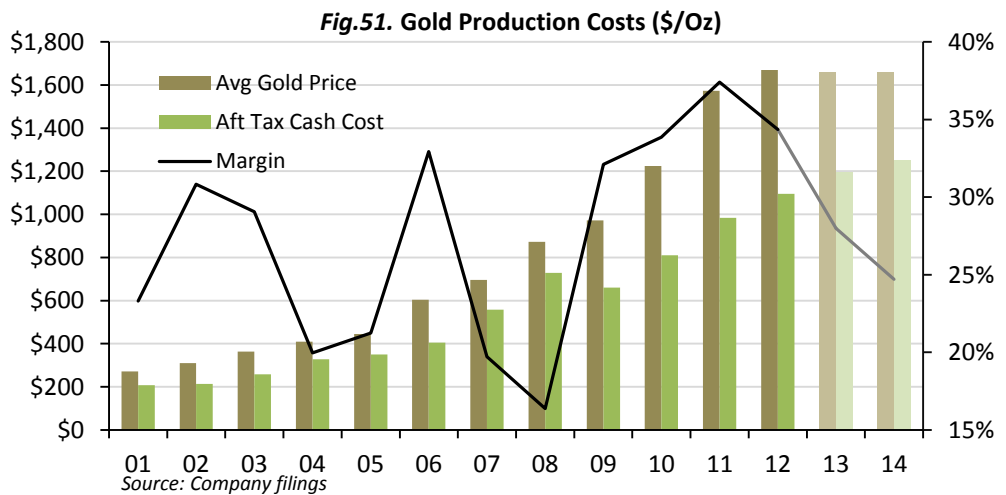
Source: FactSet
Universe: NEM, ABX, GG, KGC, AU, GFI, HMY



Source: RBC Capital Markets



Source: Bloomberg



Source: Company filings

Section III. Gold Mining Equities

