Adrian Day
ADRIAN DAY ASSET MANAGEMENT

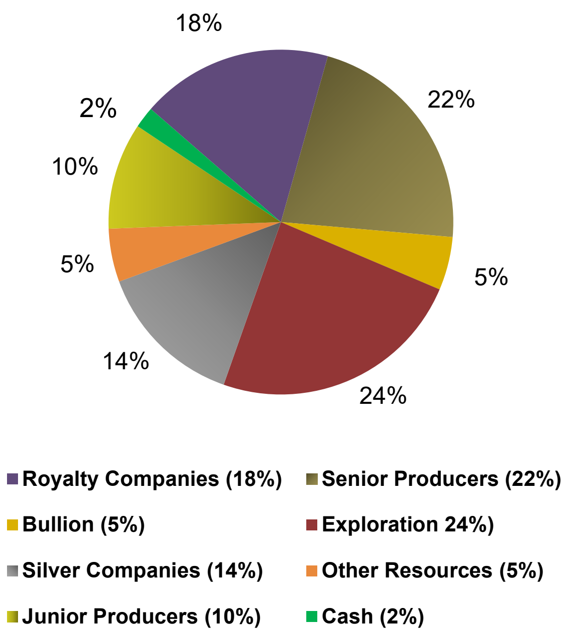
GOLD ACCOUNTS

Investors place some of their assets into gold and gold mining stocks for various reasons.

- Gold can act as a hedge on other financial assets (particularly stocks and the dollar)
- Gold stocks can provide leverage to gold
- Junior stocks in particular provide opportunities for above-average shorter-term gains

The leverage of gold stocks can work on the downside as well as the upside. In any event, gold stocks—even the most established and most conservative—tend to be volatile compared with other asset classes. Therefore, it is appropriate for investors to devote only a relatively small part of their overall assets to this sector, to the extent they are comfortable with volatility.

Account Allocation* 7/2022



Gold Looks Attractive Now

At this time, gold has been consolidating after a big move up in 2020. There has been increased investment demand, both from institutions and central banks around the world, fueled by concern about the dollar and other currencies, as well as buying as a hedge against the broad stock markets.

Counter-intuitively, the Federal Reserve's start to tightening may mark the turn in gold. In previous tightening cycles, gold has fallen *ahead* of the Fed taking action, while it was discussing raising rates, but once it starts, the market realizes that the action is too little too late. This has been the pattern for every tightening cycle since the 1990s. The Russian invasion of Ukraine saw a spike in the price of gold, but as with most geopolitical moves, it was short-lived.

Gold is inexpensive relative to other financial assets. And the major gold miners are selling close to two-decade low valuations on many metrics, including price to reserves, to production, and to cash flow. So as gold moves up, the stocks have the potential for leveraged gains as they close the valuation gap. On a price-to-cash flow basis, for example, other than the last quarter of 2018, the gold stocks have never been less expensive than they are today. For most of the past 35 years, the senior stocks have traded at multiples two to three times where they are trading today. When investors return to the sector, the stock could see outsized gains. Selectivity is critical in this sector, however. Gold stocks are as idiosyncratic as any sector, meaning that the stock of one company can perform very badly even when the sector overall is performing well (and vice versa). So it's important to choose stocks carefully, even among the major miners.

Junior Companies Particularly Attractive

Though the major producing gold stocks represent good value relative to gold, we also like other groups within the gold sector. The royalty companies have a low-risk business model. They have plenty of leverage to gold in a bull market. There is even greater potential in many of the junior producers and exploration companies. As producers find it ever more difficult to replace the ounces they mine with new reserves, they are increasingly turning to mergers and acquisitions of companies, and buying into deposits owned by junior producers and exploration companies. But it is all the more important to be selective in such companies, since exploration companies need to raise capital constantly just to keep going. We focus on companies with cash to sustain their exploration efforts, strong management, and a business model that minimizes cash expenditures (including the so-called prospect generators and royalty companies).

What Is in the Gold Account?

In our gold accounts, we are open to the entire horizon of gold and precious-metal investments. Unless instructed otherwise, gold accounts may include silver and other precious metals, as well as exploration companies in a range of resources. Silver is often a significant component of accounts. Although its supply and demand characteristics are different in important respects from those of gold, it is also a monetary metal and responds to the same factors as gold. The "poor man's gold" can have more explosive, if shorter-lived, moves in a strong bull market.

Conservative or Aggressive?

Gold accounts vary depending on an individual client's goals, whether to hedge a portfolio or maximize gains. In addition, other circumstances and objectives can come into play.

Larger accounts tend to have more juniors than smaller accounts—offering more opportunity for spectacular gains—since a larger account can tolerate the risk from any single investment more than can a smaller one. We also tend to trade more in larger accounts, often trading around a core holding.

Juniors and Seniors

Typically, we hold a core position in the top royalty companies; the best of the senior producers; some second-tier companies that may grow over the medium term, or can be potential takeover candidates; and exploration companies. Now, with the best of the seniors still undervalued, we are holding more of the large miners than normal. In addition, we aim to trade around our core holdings, adding to favorites on any declines, and trimming on rallies. In gold accounts more than others, we will frequently buy special situations for shorter-term trades. Given the volatility in this sector, we tend to be somewhat more active than in other account types. In a dedicated account (e.g., "gold" account) *unless otherwise instructed*, we tend to be more fully invested than in other accounts, raising significant amounts of cash only in exceptional circumstances. Currently, we are fully invested given low valuations and our outlook for gold.

Top Holdings

representative as of July 2022

Barrick Gold	Pan American Silver
Franco-Nevada	Fortuna Silver
Agnico-Eagle	Orogen Royalties
Osisko Gold	Metalla Royalty
B2 Gold	Midland Exploration

***NOTE:** This "allocation sheet" is intended to provide an idea of what a new account in this category might look like, based on current largest holdings and what we are currently buying. The 10 stocks listed are not necessarily our current largest holdings, nor would a new account necessarily include all these positions. The composition of the portfolios will vary for individual clients and is subject to change at any time at the manager's full discretion. Prepared on July 9, 2022 for potential clients.

For more information regarding managed accounts at Adrian Day Asset Management, please contact us at: 410-224-2037

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