The Golden Guest List

In early August, the NYSE announced that it would be making material methodology changes underlying its Arca Gold Miners Index (GDM). The GDM is often benchmarked by gold ETFs as it provides exposure primarily to a diversified pool of small-, mid- to large-market capitalization of publicly traded gold and silver mining companies. Below are the key changes:

- Access to non-US listed companies;
- A minimum of USD$750 million in market capitalization for new entrants;
- Implementation of a buffer zone around the new market capitalization minimum and other trading requirements to reduce the turnover during quarterly rebalances for existing members; and
- Prioritization of US cross-listings, American Depository Receipts and Global Depository Receipts for international companies.

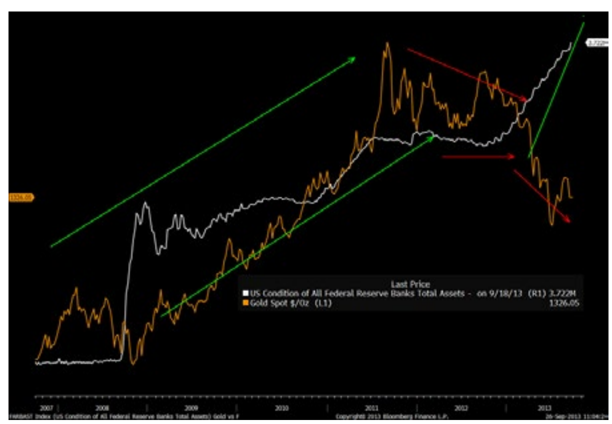
Effective September 23, 2013, this new methodology should provide a better barometer on the overall health of the gold industry by widening its international exposure to include non-US listed companies. Moreover, by increasing the minimum market capitalization threshold, it should aid funds by improving the overall liquidity of their core holdings.

With the majority of the capital that is benchmarked to the GDM tied in ETFs, the overall impact on individual gold equities is considerably mixed depending on which side they landed post the rebalancing. Driving near-term gold equity trading would be large funds like Van Eck's Market Vector Gold Miner ETF (GDX), which as of August 31, 2013, had $6.3 billion in net assets. In the short-term, stocks previously included, but now classified as ineligible will unfortunately face unduly downward pressure on their share price. Please see below for the relative performance of the GDM, GDX, Bloomberg Senior Gold Producers and the spot price of gold over the last five years, results are normalized as September 26, 2008.

	1 year return	5 year return
GDM Index	-51%	-29%
GDX Index	-51%	-29%
Bloomberg Senior Gold Producers	-42%	-25%
Spot Price of Gold	-25%	50%

Gold on the Rise?

In an unexpected development earlier this week, the United States Federal Reserve's Chairman Ben Bernanke announced that they will continue with their current pace of monetary stimulus. The market had expected the announcement of a winding down process as alluded to in June, but instead, no reduction and no definitive schedule was given. The Reserve cited continuing concerns regarding the economy's sluggish performance. Furthermore, the forecasted economic growth for 2013 was also reduced to the range of 2.0 – 2.3%, versus the 2.3 – 2.6% as estimated in June. With their latest actions, the Reserve is certainly throwing caution into the wind by preferring to stay too loose for too long as opposed to tightening prematurely. With no clear tapering in view, interest rates will remain noticeably low; giving gold back its lustre as a safe inflationary hedge. The chart below graphs the interesting path of the Federal Reserve's total asset value versus the climb of value in gold.



Other factors playing in gold's favour: 1) October marks the beginning of India's wedding season. 2) India's recent heavy monsoon season is improving crop yields and is driving the demand for physical gold. According to Reuters, about 60% of all gold demanded in India derives from rural areas as the lack of regular access to a banking network makes bullion an attractive means to store their wealth. As of September 24, 2013, the median forecasted gold price for 2014 as reported by Bloomberg is USD$1,297/oz, with a low of USD$1,135/oz and a high of USD$1,790/oz.

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