

Van Eck's Gold Miners Jr. Makes Debut

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Weight In Gold

Top holdings of Market Vectors Junior Gold Miners

Company	Ticker/ Exchange	Percentage weighting
Coeur d'Alene Mines	CDE.N	6.7%
New Gold	NGD.TO	5.7%
Silver Standard Resources	SSRLO	5.4%
Hecla Mining	HLN	5.2%
Gammon Gold	GRS.N	4.7%
Alamos Gold	AGL.TO	4.3%
Sematio	SMF.TO	3.7%
Silver Metals	SVM.TO	3.7%
European Goldfields	EGU.TO	3.6%
Golden Star Resources	GSS.A	3.5%
Northgate Minerals	NOG.A	3.0%
Kingsgate Consolidated	KCN.AX	2.8%

Source: Asset-management

Building upon the success of its \$3 billion Market Vectors Gold Miners ETF (GDX), Van Eck Global unveiled Wednesday another gold ETF.

Market Vectors Junior Gold Miners (GDXJ) is a basket of 38 small- to midsize companies.

"The junior miners can provide exposure to early-stage ventures and something akin to venture capital," said Ed Lopez, Van Eck's marketing director. "Many may not have productive mines. Many may be in the exploratory phase. There's no guarantee they'll be profitable."

It's common for companies to dig away for 10 years before striking gold. One of the ETF's holdings, Minefinders (MFN), took 15 years to become productive, Lopez said. "It tends to be a rule of thumb."

And there's no assurance they'll ever cry "Eureka!" To be included in the index, companies must get "or have the potential to generate" at least 50% of their sales from gold and/or silver mining. Their market cap must be at least \$150 million. They must have traded at least 250,000 shares a month over the last six months.

A majority, 63%, of the components are based in Canada, followed by the U.S. with 22%, Australia 11%, South Africa 2%, China 1% and the U.K. 1%.

The fund has an expense ratio of 0.60% and will rebalance holdings quarterly.

The largest of the 38 holdings, Coeur d'Alene Mines (CDE), accounts for 7% of assets. Silver Standard Resources (SSRI) takes up 6%, followed by New Gold (NGD) 5.6%, Hecla Mining (HL) 4.6% and Gammon Gold (GRS) 4.5%.

Over the past 12 months, these have rallied 111% to 311% vs. 129% for Market Vector Gold Miners and 79% for SPDR S&P Metals & Mining (XME). Gold bullion, as tracked by SPDR Gold Shares (GLD) soared 50%. They all dwarf the S&P 500's 22% 12-month return.

GDXJ's underlying index spiked 92.4% this year through Oct. 30.

Gold miners outshine the metal by a wide swath in bull markets. But when the market drops, they dull considerably more. In 2008, when the S&P 500 fell 38%, the Junior Gold Miners index plunged 61%. GDX fell 26%. XME lost 60%. Meanwhile, gold rose 5%.

The Risks

Van Eck warns the potential for big gain comes with great risk.

"Many juniors operated at a loss in 2008 and approximately a third of the companies in the fund's underlying index had negative cash flow on a trailing 12-month basis as of June 30, 2009," Van Eck said in a statement. "Juniors are particularly vulnerable to the price trend of gold as a drop in gold prices could affect their profitability as well as their ability to secure financing to develop new and existing properties."

Small-cap stocks often have higher price volatility, lower trading volume and liquidity than large caps.

"Small companies are often subject to less analyst coverage and may be in early and less predictable periods of their corporate existences," said Tom Winmill, manager of Midas Fund, which specializes in precious metals.

"These companies," he said, "tend to have smaller revenue, less management depth and experience, fewer financial resources and less competitive strength than larger companies."

Winmill recommends sticking with large-cap miners.

As a safe haven and for portfolio diversification, the yellow metal is the best option — not the stocks, asserts Terry Sacka, chief strategist at Eagle Bullion Group.

"Producers do not move equally with true bullion prices," said Sacka, who projects gold will reach \$1,300 an ounce by next spring or summer. "Miners hedge, they experience production equipment pitfalls, employee problems and environmental issues," he said.

The Bullish Case

Gold broke above the psychologically significant \$1,000 an ounce level in mid-September as worries of inflation and a weakening dollar prompted investors to search for an alternative to paper money.

Assets of SPDR Gold Shares more than doubled to \$36.9 billion in October from a year earlier, according to data from the National Stock Exchange. It hails as the second-largest ETF by assets, next to the SPDR S&P 500 ([SPY](#)), which has \$67.3 billion in assets.

"When gold really starts going, anything that even had gold in its name will be bought," said Janice Dorn, a gold trader and founder of TheTradingDoctor.com. "It doesn't matter if it's a gold stock or not."

Those looking for bargains will scoop up the low-priced stocks. And that could prove bullish for junior miners, which have lagged large producers the past few years, she said.