

Tom Winmill: \$2,400/oz Gold In The Next 10 Years

Written by Lara Crigger

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The portfolio manager of the Midas Fund gives us his take on the precious metals market.

- Where gold goes next in the short and long term
- Have we hit peak gold?
- Why he likes platinum best of all



First there was peak oil, now there's "peak gold." The idea that we may have already passed the zenith of worldwide gold production has never crossed many investors' minds, but now some industry insiders, like the [CEO of Barrick Gold](#), are loudly hailing an impending mining decline. So have we hit the peak of world gold production—and more importantly, if we have, would it make any difference?

Probably not, says Tom Winmill of [Midas Funds](#). Since 2002, Mr. Winmill has served as the portfolio manager of the firm's Midas Fund (MIDSX), a precious metals equity mutual fund that's currently up more than 86 percent year-to-date. He is also the chairman of the investment policy committee, where he helps establish general investment guidelines, and a member of the New York chapter of the American Institute of Mining, Metallurgical, and Petroleum Engineers.

Recently, HAI Associate Editor Lara Crigger chatted with Mr. Winmill about his thoughts on the current precious metals market, including his short- and long-term outlook for gold, why peak gold is not as important as cash for gold and why he likes platinum best of all.

Lara Crigger, associate editor, [HardAssetsInvestor.com](#) (Crigger): With gold prices rising so high lately, I think many investors are starting to wonder: Has gold gone too far, too fast?

Tom Winmill, portfolio manager, the Midas Fund (Winmill): Prices have already come up beyond my target for this year, which was \$1,100/oz. While I think it's difficult to call short-term prices, whether it's gold or jellybeans, we do think that this run-up in gold prices has not been associated with the euphoria that was seen when it topped out in 2008 and 2007, you know, when it got very spiky highs and then spiked down again. So we're continuing to project an average price of \$1,200/oz in the first quarter of next year. It's probably going to correct down, though. I'd say it's going to be in a +/- \$50 range for the next two or three months, and it's going to reflect the short-term "fear factor," which will depend on daily headlines. So that's hard to predict.

In the medium term however—to the extent that the jewelry fabricators have left the market because of the higher price of gold, particularly in rupee terms, and now their inventory stocks are probably lower than average. But people will continue to get married, will continue to have Christmas and Hanukkah and Chinese New Year and Diwali and so forth, so there will be gold orders that need to be filled.

Crigger: Sure, especially since we're only halfway through this normal "gold-buying" season.

Winmill: Right. The other factor that's mildly bullish is that two central banks have very publicly participated in the IMF gold divestiture program as buyers, especially India. What's interesting is that the amount India bought—200 tons—in dollar terms, that's actually very small, considering world money flows. But as a news item, I'd say that would give support; I'd say that's mildly bullish.

The real big bullish factors that I think will move longer-term prices come back to the very low monetary target set by the Fed in the U.S., and the lack of fiscal discipline in the U.S. Congress. Those two factors will drive the dollar down on the monetary side, and create inflation.

The Office of Management and Budget is currently projecting a \$10 trillion cumulative overspend over the next 10 years, and we have about \$8.4 trillion in current money supply. So even given that there's going to be some GDP growth over the next 10 years, we're still looking at twice as much money in circulation for about the same amount of GDP. So that simply doubles the amount of dollars it would cost to buy one ounce of gold. It could go higher, if there's a lot of velocity, if this monetary policy continues where money is free and you can borrow at a target rate of zero percent. But when I say "longer-term prices," we're very bullish: Our long-term price for gold, even though some people say it's too modest, is \$2,200-\$2,400/oz gold in about 10 years.

Crigger: The CEO of Barrick Gold recently stated that gold production peaked in 2000 and has been in decline ever since, and it's time to acknowledge that it's getting harder and harder to find ore. Do you think we've hit "peak gold"?

Winmill: I don't know. I didn't actually read his interview. I saw that you focused on peak gold [on your latest podcast](#), with his recent comments and their impact on the fundamental supply and demand picture. That would be something that's bullish for gold.

With respect to that, there haven't been sizable new deposits found, only a handful in the past 10 years. So looking forward, I'd say there's probably not going to be a huge new South Africa, with an enormous amount of gold hitting the market anytime soon.

And with respect to known deposits and estimated existing mine life spans, they're at increasingly lower grades. So if a deposit had a reserve grade of, say, 1 gram per ton, the average now is about 0.6 grams per ton. That means that for all the effort and bother, they're actually pulling out less gold for every ton of ore moved, and the costs will go up.

But will it really make any difference? The single biggest source of gold is existing gold. As you discussed on your program, gold is not consumed. It just sits there. Ninety-nine percent of all gold ever mined is still in a form in which it can be obtained, melted or refined.

Crigger: Certainly we've seen the scrap market take off lately.

Winmill: Right, that cash for gold movement—the trading market for recycled gold is much, much bigger than for mined supply. And the real relevant factor for the long term will be currencies.

One of the things [Adrian Ash](#) mentioned that I thought was insightful was that gold does not have a good record of making people money. It has a good record of preserving capital. Gold has a negative carry; it costs money to own gold, whether it's insurance, storage, etc. So it's something to preserve wealth, and it will preserve wealth when the value of currency goes down. So that's why we're a little leery of owning gold itself; what we like to do is own mining companies.

Crigger: When you're evaluating a mining company, what do you look for?

Winmill: We look for the three P's: people, projects and pricing. A lot of my competitors talk about ounces and things like that, but the first thing you have to look at is management. Because whether it's a semi-conductor company or a lemonade stand, if you have really good managers who see themselves as stewards of the shareholders' money, you'll make money with them. But if you have a company with great projects but crummy management? They will find a way to make it hard for shareholders to see much upside. We like to see a track record of success and that management is acting as stewards for the shareholders; in other words, that they're not always issuing equity, that they have a sense of return on capital. That's very important.

Secondly, projects: We do like to see the technical reports, the feasibility studies. We don't really like to see the newfangled, modern technology to extract gold, because they usually have a lot of problems that need to be worked out. We like to see very straight, vanilla projects.

And then there's pricing—there are a lot of companies that have very interesting mines and good management, but they've promoted so heavily that they don't really offer any value.

Crigger: It makes sense then that your fund is so heavily invested in larger miners over juniors.

Winmill: Well, there are times when you want to be invested in juniors. We have a saying that in certain bull markets, even the turkeys will fly. The storm winds are just about to blow, and some of the turkeys are starting to go. So there's a season for juniors.

Crigger: Switching gears, I'd like to talk a little about some of the other precious metals, particularly silver, which hasn't really seen the same short-term price run-up that gold has. Why do you think we haven't seen the same record movements in silver as in gold?

Winmill: It depends on the time frame you're talking about. Year-to-date, silver has far outperformed gold, and over the longer term, gold has outperformed silver. So it's a matter of timing.

Silver, as you know, is primarily an industrial metal, so its performance will reflect the overall vision on the viability of the economy and its growth. And it has some industry-specific consumption factors, like photography or anti-microbials. But probably what's driving silver's price right now is the ETF.

For whatever reason, I think because silver hit such a low last year, silver ETFs have been very successful this year in soaking up the surplus. But the silver market is very, very small. If the gold market is small, silver is even tinier. It's a much less liquid market, and so the ETF has a much bigger impact.

Crigger: Where do you think silver goes in the next six-12 months?

Winmill: Well, I've been surprised by the popularity of silver. I was not expecting prices to do so well, and I think there's more euphoria in silver than there is in gold currently. So I'd say that silver could get very spiky; it could go up and down—the way to play silver in my mind is with some very-high-quality silver producers, that are primarily silver producers, such as Fresnillo (LSE: FRES) and others in the mining sector, not the bullion itself.

Crigger: Should precious metals keep their eye on other metals, like platinum and palladium? We've seen huge rises in both those metals, year-to-date.

Winmill: Yes, platinum hit its highest price since September 2008. Platinum's probably my favorite metal right now. It has that industrial component with autocatalytic converters, which, like Christmas and Hanukkah and Chinese New Year for gold, is not really going to go away. People will continue to buy and drive vehicles.

The other thing about platinum is that the marginal cost of production additional ounces now is about \$2,000/ounce. Even though the South African mining companies generally have very conservative balance sheets and so forth, there will be closures of the more expensive shafts and mines. So even though Johnson Matthey came out with a 140,000 ounce surplus, I have a feeling that we're not going to really see that surplus. It's going to be adjusted. Because my guess is that vehicle production will recover because of the rebounding economy, and there will be more mine closures than anticipated. So I'm bullish on platinum. That's my favorite at the moment.