

## Beware gold miners bearing stock offerings

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By Edward Krudy

NEW YORK (Reuters) - As gold prices set records, investors in gold stocks should watch out for miners raising capital by issuing more shares and diluting investments of existing shareholders.

Investors in gold miners seek protection from the threat of inflation as government printing presses work overtime to stimulate the economy. But their investments could be eroded in a sea of new equity.

Gold has been in the headlines, making new highs on almost a daily basis and at least one prominent investor announced a new gold fund to a fanfare of news coverage. Some analysts have warned of a gold bubble.

Spot gold hit a record high of \$1,182.70 an ounce on Wednesday and has risen 60 percent since late October 2008. The Arca Gold Bugs index, which measures the performance of 15 big gold miners, is up around 190 percent during the same period.

Low interest rates, growing budget deficits, and uncertainty about the economy are driving more investors to the lure of the precious metal as the U.S. dollar tumbles.

"Frenzies in the gold market are associated with mass issuance of gold equities," said Tom Winmill, president of Midas Management in Walpole, New Hampshire, in a recent interview. "And that's when it's time to take some money off the table."

Winmill, who manages the \$122.8 million Midas fund, says secondary offerings have picked up recently especially among smaller gold miners. While issuances are not at the high levels in the first quarter of the year when he took some profit, Winmill expects them to take off again as the price of gold rises.

"If you had \$3000 gold prices, there would be a huge amount of capital that would be sought in order to open up these mines, which are currently uneconomical at current prices," he said.

Many smaller gold miners with significant resources in harder to reach places, such as South Africa's Harmony Gold Mining Co Ltd (HARJ.J: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) (HMY.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), fall into this category, says Winmill.

One of the biggest secondary offering from a gold miner this year was from Canada's Barrick Gold Corp (ABX.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) (ABX.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), which raised over \$4 billion in September.

But other smaller miners have also come cap in hand to capital markets during the quarter such as Anatolia Minerals Development Ltd and Allied Nevada Gold Corp (ANV.P: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)).

More than 260 companies involved in gold mining globally have raised equity capital amounting to about \$33.4 billion this year, according to Thomson Reuters data.

### GOLD SET TO DOUBLE

Winmill believes conservatively that gold will double in value in the next ten years and the best ways to ride that wave, he says, is through owning gold mining stocks.

He insists he is not a "gold bug" predicting the imminent demise of the world currencies but believes market dynamics favor gold investors.

"I see the purchasing power of the dollar declining by at least 50 percent in the next 10 years," said Winmill. "I'm pretty comfortable that the gold price in dollar terms will be a least double what it is today in ten years."

The fragmented nature of the industry means that Midas predominantly holds stocks in mid-sized companies with a smattering of bigger names.

About 98 percent of the fund's holdings are foreign stocks, according to fund tracker Morningstar.

The fund has about 85 percent of its assets in gold miners, says Winmill, and is up nearly 90 percent year to date, according to Morningstar.

#### STOCKS BETTER THAN ETFs

One of Windmill's largest holdings is Kinross Gold Corp (K.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) (KGC.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), a Canadian miner based in Toronto, with interests in the Americas and the Russian Federation.

Among smaller companies in the portfolio is Jaguar Mining (JAG.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), a New Hampshire-based company that has mining operations in the Iron Quadrangle region of Brazil.

Windmill prefers stocks to gold exchange traded funds such as the SPDR Gold Trust because an increase in the price of gold will have a greater impact on marginal profits.

If the price of gold rises 10 percent to \$1100 an ounce, then a producer who has been making \$500 per ounce is now making \$600, an increase of 20 percent.

As prices rise, demand from jewelry manufacturers has been falling, with the slack taken up by financial investors. But Winmill is not worried about an asset bubble; he is content to ride the upswing while it lasts.

"Is gold the greatest store of value? At this point I don't think it makes any difference," he said. "I think gold's been a bubble since the first person said, 'here's a coin. I will buy your cow for this gold coin.'"