



## Sifting for Gold

Tom Winmill uses his training as a lawyer to find nuggets in mining-company documents when picking stocks for the Midas Fund. **By MARYANN BUSSO**

**G**OLD HAD A good year in 2009. Tom Winmill's Midas Fund had an even better one. The \$125 million fund, which invests in companies that mine or process metals or other commodities, was up 110 percent in the 12 months ended on Jan. 11. That return beat 96 percent of the fund's peers, according to data compiled by Bloomberg.

Winmill, 50, says his training as a lawyer helps him sift through engineering reports on mining deposits. "That's much more important than putting on your hiking boots and walking around the mine," he says.

Among the items high on Winmill's checklist when picking stocks: a miner's ability to start production on time and on budget and to preserve the value of its shares. "I like to see a mining company that pays a dividend, occasionally does a stock buyback—instead of constant stock issuance—and doesn't make dilutive acquisitions in order to extend their empire," Winmill says. Those three things, combined with a good project, are key, he says.

As of January, Winmill had the majority of the fund's assets in stocks of gold-mining companies. That was giving the fund a boost from a bullish market as investors sought to hedge the value of their holdings. "The devaluation of the dollar and the bursting of the bond bubble is going to hurt a lot of investors," Winmill says. "And inflation is going to hurt a lot of savers."

In January, Winmill said he expected gold prices to average \$1,200 an ounce (31 grams) during the first quarter and to increase to \$1,500 by the end of the year. Gold traded at \$1,151 on Jan. 11, after having risen 35 percent during the preceding 12 months.

**AMONG THE MINERS** that meet Winmill's investment test is Northern Dynasty Minerals Ltd. The Vancouver-based company is developing Alaska's Pebble gold and copper project in partnership with Anglo American Plc. Shares of Northern Dynasty, which is 20 percent owned by Rio Tinto Group, rose 154 percent in the 12 months through Jan. 11 to trade at \$9.44. "They've got experienced, well-capitalized partners who really know how to get the ore out of the ground," Winmill says.

Midas also owns shares of Jaguar Mining Inc. The Concord, New Hampshire-based company is bringing older gold mines in Brazil back into production. Winmill says Jaguar's output might reach 600,000 ounces in about five years, up from 115,000 ounces in 2008. He says the company is likely to be acquired. Jaguar's shares jumped 226 percent to \$13.06 in the

**'As the dollar goes down, it's going to take more dollars to buy the same ounce of gold,' Winmill says.**

### Cheat Sheet

Type **MINE <Go>** for a menu of functions related to metals markets.



'I'm not a gold bug,' says **Winmill**, on his property in Walpole, New Hampshire.

12 months ended on Jan. 11. Type BMAP <Go> to use the BMAP for Energy and Commodities function to find information about gold mines. Click on Mine Search, then on the check box to the left of Gold and finally on the Search button.

Midas's holdings also include Silvercorp Metals Inc. and Fresnillo Plc. Shares of Vancouver-based Silvercorp, which has been buying high-grade mines in China, rose 293 percent in the 12 months through Jan. 11. Stock of Mexico City-based Fresnillo, which operates silver mines in Mexico, was up 257 percent during the period to trade at 852 pence on the London Stock Exchange.

Winmill says he looks at gold through four filters: U.S. fiscal policy, U.S. monetary policy, market supply and demand, and geopolitical events.

Growing U.S. budget deficits will reduce the dollar's purchasing power, he says. From 2001 to 2009, U.S. money supply almost doubled to \$8.5 trillion. During the next decade, U.S.

gross domestic product of about \$14 trillion is likely to grow an average of only 1 to 2 percent a year, Winmill says. "We'll double the supply of dollars and have about the same amount of wealth, so the dollar will have about half the purchasing power that it has today," he says. Given that assumption, gold will be a way to preserve value, he says.

As the deficit expands, the Fed will have less ability to control inflation, Winmill says. He forecasts a 3 percent inflation rate by the end of this year and as much as 5 percent in 2012. Type CPI YOY <Index> GP <Go> to graph the year-over-year change in the U.S. consumer price

index, which was 2.7 percent in December.

The U.S. Federal Reserve is holding its target for the federal funds rate at zero to 0.25 percent to stimulate manufacturing and exports, and that's driving the dollar down, Winmill says. "It's great for the price of gold," he says. "As the dollar goes down, it's going to take more dollars to buy the same ounce of gold."

The supply-and-demand outlook is mildly bullish: Scrap supply is up, jewelry demand is down, central banks have been buyers of gold and mined supply is trending lower, Winmill says. The least-important filter for analyzing gold is geopolitical events such as impending wars, he says, since prices usually reflect the worst expectations.

**WINMILL, WHO GREW UP** in Locust, New Jersey, graduated from Yale University in 1981 and earned a law degree from the University of Washington four years later. After working as a lawyer in Seattle, he joined Bull & Bear Group Inc. in 1988. The New York-based investment management firm, which was headed by his father at the time, changed its name to Winmill & Co. in 1999. The firm bought the Midas Fund in 1995. After gold dropped to a low, the firm terminated its agreement with the fund's subadviser in 1999, leaving Winmill to help reorganize the fund's investments. He took over as portfolio manager of the fund in 2002.

In 2008, Winmill and his wife moved from New York to Walpole, New Hampshire, to be closer to their two sons, who were going to school in the state. Winmill says he's taken to rural life. He splits wood and taps the maple trees on his land. Last spring, he boiled the sap to make maple syrup. "We got about 2½ gallons," he says. The steam from the process also peeled some wallpaper in his 1866 house, he says with a laugh.

The Midas Fund isn't only about gold, Winmill says. "I'm not a gold bug," he says. "I'm a capital-appreciation bug." To find returns for investors, the fund has the flexibility to invest in platinum, copper and other commodities, he says. At the moment, it doesn't have to. "Right now, I think gold is in a terrific spot," he says. **B**

**MaryAnn Busso** is associate rankings editor of **BLOOMBERG MARKETS**. [mabusso@bloomberg.net](mailto:mabusso@bloomberg.net)

## Tom Winmill

### Midas Fund

Portfolio manager

### EDUCATION

Earned a bachelor's degree in political science and economics from Yale University in 1981 and a law degree from the University of Washington in 1985.

### BACKGROUND

Worked as a corporate securities lawyer after law school. Joined investment management company Bull & Bear Group, which was renamed Winmill & Co. in 1999. Is CEO of that firm and of private-investment firm Bexil Corp.

### PERSONAL

Age 50. Married, with two sons. Ran the 2009 New York City Marathon.

### MAPPING MINES

Type BMAP <Go> and click on Mine Search to find information on mines. You can search by the type of mine, by company or by location.

