



## Special Situations



### ETFX DAXglobal Gold Mining ETF - Buy

4th April 2012

Price	\$40.30
12 Month Price Target	\$49.00
Risk Rating	High

#### Investment:

The ETFX DAXglobal Gold Mining ETF (AUCO) tracks the DAXglobal Gold Miners Index, which contains 20 global gold mining shares. The largest holdings include Barrick Gold, Newcrest Mining, Goldcorp, Newmont Mining, AngloGold Ashanti, Kinross Gold, Agnico-Eagle Mines, Randgold Resources, Gold Fields and Eldorado Gold.

The fund trades on the London Stock Exchange in USD and has a total expense ratio of just 0.65%.

A Harvard Business School study found that gold mining shares are twice leveraged to the gold price, as they have fixed operating costs. Buying gold mining shares through an ETF reduces the company specific risk as the fund is diversified across many companies.

#### Analysts View:

BNP Paribas has a \$1,850 Year End price target for gold bullion, above the current level of \$1,632.

High liquidity, low interest rates and sovereign debt issues are set to support the gold price this year, without including the possibility of further QE.

#### Special Situation:

Recently, there has been a dramatic divergence between the price of gold bullion and the price of gold mining companies. One explanation for this is the increasing operating costs brought about by the higher oil price.

However, over the long-term, both markets tend to converge especially during times of rising gold prices.

We believe that this divergence will correct itself and combined with a rising gold price will result in a large increase in the value of gold mining shares.

#### Shares versus Bullion:

There are different ways to obtain exposure to gold with most investors either buy gold mining shares or gold bullion via an ETF, such as Gold Bullion Securities (GBS). There are advantages and disadvantages to both.

Buying gold companies brings company-specific risks such as production issues, potential litigation, poor management, new regulation, adverse weather conditions, operating costs etc. Their shares also tend to be correlated with the overall equity market.

On the other hand, an investment in gold bullion does not pay any dividends and does not have the leverage associated with gold companies.



## Special Situations (cont)

### Catalysts for the share price:

#### 1) Gold mining shares are cheap in absolute terms

Gold miners are trading on an average P/E multiple of 20, their lowest level since the depths of the financial crisis in 2008.

#### 2) Gold mining shares are oversold against the wider market

Since the start of the current market rally in October 2011, the EFX DAXglobal Gold Mining ETF has fallen 11.75%, compared with a 28.56% rise in the S&P 500 (see pink line on the attached chart). As a result, the "Gold Miners to S&P 500" ratio has fallen below its lower upward sloping trend level, whilst its RSI is approaching 30 and the MACD is at its lowest level since 2008. Such a convergence of indicators has only occurred once in the last decade.

#### 3) Gold mining shares are low against the gold bullion price

Gold miners are low compared with gold bullion, creating a large divergence in price. Even if the gold price merely remains flat (which we think is unlikely), the price gap between gold bullion and gold miners should narrow.

#### 4) Technicals

Technically, the price action of gold miners is forming a falling wedge, a bullish pattern. Any breakout above the resistance level at \$42.50 will only confirm the resumption of this bull market. On top of this, the gold miners are trading at two year lows and at long-term support levels.

### Chart Legend:

	20 day moving average	(signifies the short-term direction of the security. prices tend to gyrate around their 20 day m/a)
	50 day moving average	(signifies the medium-term direction of the security)
	200 day moving average	(signifies the long-term direction of the security - whether it is in a bull or bear market)
	bollinger bands	(an indicator that measures 2 standard deviations away from the 20 day m/a)

### Technical Analysis Guide:

**ADX** (average directional index) - indicates whether a security is in a trend (above 20) or not in a trend (below 20). For trending markets moving averages work best when considering lines of support/resistance. For non-trending markets bollinger bands work best (sell at upper band, buy at lower band).

**RSI** (relative strength index) - indicates whether a security is overbought (above 70) or oversold (below 30). Also when the RSI moves above 50 that is considered bullish (or vice versa).

### Research Disclaimer

Gibraltar Asset Management is a trading name of Gibraltar Asset Management Limited, is a member firm of the London Stock Exchange and is authorised and regulated by the Financial Services Commission. Research: Neither the information nor the expressed opinions in this document constitute or intend to be an offer, or a solicitation of an offer, to buy or sell relevant securities ( i.e. securities mentioned herein and options, warrants, or rights to or interests in any such securities). The information and opinions contained in this document have been compiled from, and based upon generally available information and independent research undertaken by ourselves which has been qualified and reviewed by our portfolio managers for suitability or appropriateness. However, the accuracy or completeness of the analysis cannot be guaranteed. Confidentiality: The information in this document and any attachments may contain proprietary information some or all of which may be legally privileged. It must not be disclosed to or used by persons other than the intended recipient. If received in error, please notify us immediately and then delete this document. Content: Please note that the content of this document may be e-mailed and may be intercepted, monitored or recorded for compliance purposes. Copyright: Copyright in this document and any attachments created by Gibraltar Asset Management Limited belongs to Gibraltar Asset Management Limited unless otherwise stated. Care: Gibraltar Asset Management Limited shall not be liable to the recipient or any third party for any loss or damage howsoever arising from this document and / or its content, including if e-mailed, loss or damage caused by virus. It is the responsibility of the recipient to ensure that the opening or use of this document and any attachments shall not adversely affect systems or data. Contact: Telephone +350 200 75181 Mail: gam@gam.gi Website:www.gam.gi

