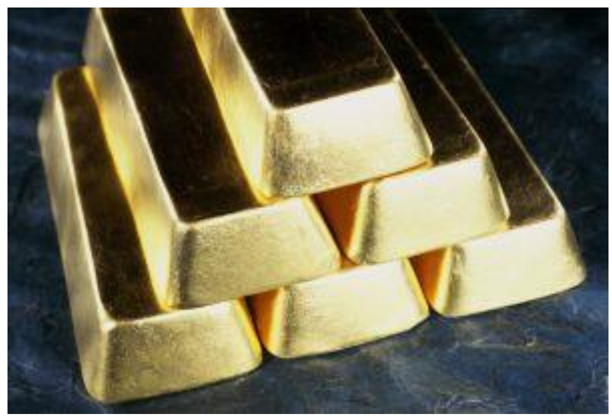
Institutional Investor's alpha

Gold Still a Bust Despite Market Swoon

August 26, 2015 Irwin Speizer

The precious metal retains just a handful of die-hard fans, and the stock market plunge hasn't changed performance for the better.



Another summer, another gold bust. The precious metal, which was trading at nearly $1,900 an ounce four years ago, has been hovering near $1,100 this summer. When one Goldman Sachs analyst opined in July that gold was headed below the psychological threshold of $1,000, it was almost enough to give confirmed contrarians pause.

But even as gold sheds nearly half its peak price, most investors and analysts maintain that a lot more blood needs to spill before gold and gold-related assets like mining companies start to look attractive again. Gold-related bets, once widely held in the hedge fund world, are mostly the purview of a few diehards these days. According to filings as of the end of June, managers who have been big into gold-related investments had made no major moves into or out of the metal. Whether that continues to hold true with the August market plunge remains to be seen. Gold bobbed up on Friday but drifted back down on Monday and Tuesday as stocks plunged on all three days.

"I follow this sector every day," says Vedant Mimani, a director and partner in Fortuna Investors in Miami, a quantitative investment firm that manages money through separately managed accounts. "When there is capitulation, I will be in it again. I just don't see capitulation yet." Mimani previously ran a small hedge fund that specialized in gold mining stocks at Atyant Capital in Boca Raton. The fund shut down after years of falling prices in the sector.

One of the more serious recent moves into gold has come from David Einhorn, a longtime gold bull. His Greenlight Capital started buying the Market Vectors Gold Miners ETF in the second quarter of 2014, when the firm owned 228,000 shares. That grew to 6.3 million shares in the third quarter of 2014, and then to more than 8.5 million in the fourth quarter, which is where the position stood as of the second quarter of 2015. A recent Bloomberg article said Einhorn's related reinsurance company, Greenlight Capital Re, had nearly 10 percent of its portfolio in gold bullion, which was largely to blame for the portfolio losing 16 percent in 2015 through July 27. Einhorn's main hedge fund was down as well.

John Paulson, another long-standing gold bull, held positions in six gold mining companies and the SPDR Gold Trust ETF, as of the first quarter of 2015, according to filings with the Securities and Exchange Commission byPaulson & Co. His Gold Trust holdings were valued at about $1 billion. As of the end of the second quarter, Paulson's only major gold move was to sell one mining company and add a different one. Macro manager Bridgewater Associates reported positions in 13 gold mining companies in its first-quarter SEC filing. Bridgewater held the same gold positions at the end of the second quarter, with only a few small tweaks.

Canadian Eric Sprott, one of the most outspoken gold bulls, remains heavily invested in gold-related positions through his Sprott Inc., according to second-quarter SEC reports.

But others who participated in the last gold run have stayed mostly on the sidelines. George Soros, whose Soros Fund Management was weighed down with gold mining companies and SPDR Gold Trust shares back in 2010, had only one gold position as of the first quarter of 2015, the Market Vectors Gold Miners ETF, and had made no change as of the second quarter. Eric Mindich, who made a big gold play in 2010, held just one small gold position in a mining company in his Eton Park Capital Management, according to SEC filings, and he trimmed that position slightly in the second quarter.

Philippe Ferreira, head of research at Lyxor Asset Management in Paris, says one group of managers who have been attracted to gold are trend-following CTA managers, who have been adding large positions on the commodity. But those are short bets on gold losing even more value, he says.

"Very few managers are willing to take the view that gold is again becoming attractive as a long bet," Ferreira says.

The problem with gold is that its value is tough to measure because of its dual purpose as a commodity used in jewelry and other goods and also as a hedge against economic dislocations. Back in 2009, when the U.S. economy was still reeling from the recession and the government was embarking on its massive economic stimulus program, gold mavens like Sprott and Einhorn argued that the economy and the dollar would be wrecked by excessive government borrowing and spending and that gold was the logical safe haven. Plenty of others agreed, and gold soared in price, peaking near $1,900 in 2011. But a funny thing happened on the way to disaster: The U.S. economy and the dollar proved resilient. Equity markets boomed, and the argument for gold evaporated.

Even an outspoken gold bull like Sprott, whose portfolio was heavily tilted toward gold and silver a few years ago, has had to adjust. In his first-quarter filing, investments related to gold, silver and other basic materials were still one of his largest sectors, accounting for about 20 percent of holdings. But he had an equal allocation to technology and to financials, and none of his top ten holdings were gold related.

Gold may still be the metal that glitters, but for the moment it doesn't appear to be the investment that shines for hedge fund managers.