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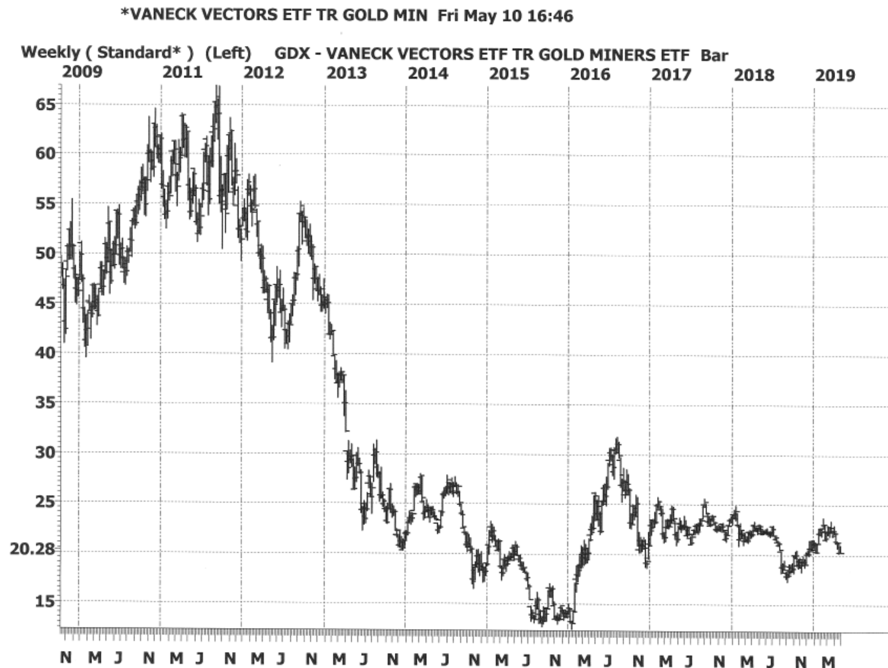
Are Gold Stocks in a Position Similar to the Stock Market in Early 1982? May 10, 2019

As the chart of the GDX Gold Mining Index below illustrates, gold stocks have been moving sideways at a very depressed price level for close to the last six years, at price levels off over 67% from their 2011 high. Given that gold's price is only approximately 33% from its 2011 high, gold shares are historically undervalued. Relative to other investment sectors gold mining shares are one of the few undervalued investments available today.



There are many similarities between gold mining shares today and the general stock market in early 1982. At that earlier time stocks had been through a decade of disappointing returns, they were significantly undervalued, and at what turned out to be a generational buying opportunity. The problem then was that investors' attitudes ranged from indifference to downright disgust, since so many people had been hurt by owning stocks during the previous decade. When stocks finally lifted out of their lethargy in August 1982, they increased in price approximately 40% in four months. They did not provide an easy entry point for about a year, and then it was at substantially higher prices.

Today most investors scoff at the thought of investing in gold mining shares. The few who would consider the idea are convinced there is no rush---they will know the perfect entry point when it occurs. However like stocks in 1982, an advance in gold shares may be as explosive as that earlier liftoff in the general stock market.

We believe there are strong reasons to expect a powerful liftoff in gold shares and suggest that investors have a position before an advance commences.

Political Trends: Populism is building on both the right and left ends of the political spectrum. Only a small portion of the population has benefited from Federal Reserve (FRB) policies of the last decade. Wealth disparity has increased significantly. Government policy, both monetary and fiscal, is likely to be more inflationary going forward, regardless of which party is in office.

FRB policy makers are now increasingly pushing for action that will guarantee at least two percent inflation combined with tolerance for levels above that. Recent board member comments appear to be creating an intellectual basis to justify lower interest rates in order to increase inflation above two percent. There is also an increasing consensus on the FRB that

inflation should be allowed to go above two percent for an extended period since it has been below that goal for most of the past decade.

Concurrently fiscal policy is trending toward unlimited budget deficits through both tax cuts and new spending programs. The recent proposal of a $2 Trillion infrastructure program is just one example. Progressives are also proposing tuition loan forgiveness, expanded government health care, and guaranteed minimum income programs. Not all of this will come to pass but it is difficult politically to oppose freebees. Furthermore neither party is opposed to deficit spending. There is not enough wealth or income to tax to pay for proposals, so the deficit will expand as a percent of GDP. Additionally there is a growing intellectual argument that deficits do not matter if a country can issue debt payable in its own currency.

Spending or debt forgiveness proposals, should they come to pass will put more demand on goods and services, while supplies will not increase as fast, contributing to higher inflation. The supply/demand imbalance, combined with expanding debt/GDP levels, will potentially ignite an inflation psychology.

A recent Business Week cover declared "Is Inflation Dead", a dramatic cover similar to the August 1979 cover "The Death of Equities". When trends persist for long periods, crowd psychology begins to believe they will persist indefinitely, just as those trends are changing.

The dollar is overvalued on a purchasing power parity basis. Given government fiscal policy inclined towards greater deficits, and FRB policy comfortable with higher inflation levels, confidence in the U.S. dollar may diminish, leading to extended dollar weakness. Dollar weakness when it develops will be a strong tailwind for higher inflation and higher gold and gold share prices.

Central banks have been net buyers of gold since the 2008 financial crisis. Last year, their net purchases where the highest since 1967. This is a significant change in attitude, as central banks have once again recognized that gold has a place in reserve holdings. Unlike fiat currencies, which are liabilities of the issuing country, gold is an asset which remains a universally accepted currency during times of financial crisis.

Gold mining shares relative to the current price of gold are near generational lows—lower than they were in 2001 at the start of the decade long rise in gold's price, and just slightly higher than their extreme low in December 2015.

The most attractive gold mining shares are the intermediate and smaller producers and exploration companies. This is evidenced by both larger miners and private equity funds either making minority investments in the junior miners at premium prices to current market prices, or making full acquisitions at above market prices.

In summary, shares of intermediate and junior gold mining shares are one of the few current investment opportunities that are both undervalued, and have strong reasons why these under valuations will disappear. We believe that gold and gold mining shares are close to a lift off phase, similar to the general stock market in early 1982. As with that earlier opportunity, once gold breaks above the 1360 level that has contained it for the last several years, prices could rise substantially, given little overhead resistance until approximately 1600. A move of that magnitude in the gold price will offer extreme leverage to the potential value of intermediate and junior mining shares. Gold mining shares have attractive merit in absolute terms, but also provide potential insurance against a correction in the current overvaluation in general financial assets.

Past results are not necessarily indicative of future performance. Actual trading for the AIS Gold Fund L.P. commenced in December 2002. No representation is being made that any account will or is likely to achieve profits or losses similar to those shown. For a complete offering memorandum of AIS Gold Fund L.P., contact AIS Capital Management, L.P., Wilton, CT 06897 (203) 563-1180.