Q&A | TUESDAY, APRIL 26, 2011

# Is the Gold Rally Still in the Middle Innings?

By JOHN D. KIMELMAN

***Tocqueville Gold Fund's John Hathaway thinks that gutless government leaders will continue to push up the price of his favorite metal.***

John Hathaway recalls the days when being the portfolio manager of a gold fund was like being the punch line of a joke.

"In 1998, when we started the fund, people thought we were crazy," says Hathaway, the 69-year-old manager of the $2.8 billion-asset Tocqueville Gold Fund.

One of the skeptics at the time was an Internet stock specialist who worked for the Tocqueville fund family. "He is no longer here," says Hathaway, before letting loose with a laugh.

Hathaway's relaxed confidence can be easily explained. Over the past 10 years, his fund has generated an average annual return of 29%, easily outpacing the average precious-metals fund and earning it Morningstar's coveted five-star rating.

Hathaway has outperformed the pack by finding mining stocks that tend to be smaller and at an earlier stage of their development than the average mining stock. These are the kind of stocks that, if properly picked, can smash through benchmarks.

### Manager's Bio

**Name:** John Hathaway
**Title:** Tocqueville Gold Fund
**Age:** 69
**Education:** B.A., Harvard University; MBA, University of Virginia.
**Hobbies:** Alpine skiing, golf

Even with gold and silver hitting record highs on an almost daily basis, he is still very bullish on both precious metals.

As Hathaway sees it, gold prices will hold up as long as the U.S. and other major Western political leaders adopt practices which result in devalued currencies, high-budget deficits, and untamed inflation. On the home front, both President Obama and Federal Reserve Chairman Ben Bernanke, he argues, lack the political will to rein in the deficit and fortify the dollar. And a weakening dollar, more often than not, is associated with a rising gold price.

Hathaway's bullishness on gold is shared by investment giants like John Paulson and Jim Rogers, both of whom have invested heavily in the metal in the past year.

Recently, Hathaway sat in a spare conference room in his midtown office and discussed his latest thoughts about his favorite asset class.

**Q:** *What's your view on gold and silver right now?*

**A:** The reasons to be investing in gold or silver are very much related to monetary and fiscal issues of today's Western democracies. And those are not transitory, trading types of concerns. These seem to be intractable, vexing problems. I believe that the value of not just the dollar, but the euro and the yen will be sacrificed to the needs of the state. That was kind of always true to some extent, but it has really blossomed into a front page kind of story now. What has to be done to restore credibility to paper currency is going to be very unpopular and quite difficult to pull off.

### Fund Facts

**Tocquevile Gold Fund** (TGLDX)

**Assets:** $2.8 billion

**Expense Ratio:** 1.34%

**Load:** None

**Portfolio Turnover:** 9%:

**Q:** *So you don't think the political will exists to do these kinds of things – the fiscal belt-tightening and the inflation fighting –that would actually help strengthen the value of dollar and other paper currencies, which would have the net effect of hurting gold investments?*

**A:** Look at President Obama's recent speech in reaction to the Republican budget plan. It was clear from his comments and from [Treasury Secretary Timothy] Geithner's words that we are not going to make savage cuts in entitlements and raise taxes to sharply reduce budget deficits. I don't think the political will is there.

**Q:** *How much of gold's current price right now is backed by fundamentals and how much of it is based on froth?*

**A:** Well to me the fundamentals are kind of what we just talked about. They are very much supportive of gold prices where they are and in my view most investors underweight gold in a huge way.

**Q:** *So you see no froth in the price, no speculative excess?*

**A:** Well, you are always going to have momentum players. I am sure people invest in it because it has got momentum, and so you can't have a successful investment without having those kinds of people along with it, but it is impossible for me to sort out how much of that there is. Still the stocks, which are a good barometer of sentiment, are trading at a very low ratio of the gold price. That argues against too much froth. There are some things that make me think there is some froth, but it's not a lot. It is not the main thing that is going on.

### Top 10 Holdings

(as of March 31, 2011)

| | |
|---|---|
| Goldcorp | (G) |
| Ivanhoe | (IVN) |
| **Physical Gold** | |
| Silver Wheaton | (SLW) |
| Osisko Mining | (OSK) |
| Gold Resource Corp. | (GORO) |

**Q:** *Last June, in your interview with Barron's, (See "* **The Golden Mean** *," June 5, 2010.) you likened the current gold rally to a football game, saying that we were at the beginning of the third quarter and that the fourth quarter would be the "silly season." Where are we now in the gold rally?*

**A:** Well this is a long game. We are still in the third quarter.

| **U.S. Treasuries** | |
|---|---|
| Newmont Mining | (NEM) |
| IAMGold Corp. | (IMG) |
| Randgold Resources | (GOLD) |

You know to me the last bull market in gold went from 1968 to probably 1980, a period of severe rising inflation. That was 12 years. (*Editor's note: The current rally has run for 10 years.*) This rally to me has potential to be longer, because the issues today are to me more challenging than they were in the 1970s and policy is more out of line with what it needs to be to get gold out of the picture.

**Q:** *Do you have a price target for gold?*

**A:** I don't. A lot of people have targets, but they are based on a snapshot of where we are and it doesn't discount where we could go in the future. So gold is dynamic, you can't say where it should be because it doesn't have an intrinsic value. Instead of predicting a price, what I really think about more is what would it take to make a trend change. When is the next year like 1980 when we are going to go into a 20- year plus bear market in gold. In 1980, people were fed up with inflation. We are kind of getting there but we don't have the kind of conditions we had in 1980, which was like a grass roots movement for major change. Now you are beginning to see that with the issues you are having over the federal budget, so that is something I watch a lot.

**Q:** *Your fund is called the Tocqueville Gold Fund, right, but yet you do invest in some silver and platinum. I notice that you own a silver-related mining and royalty companies.*

**A:** The fund may be misnamed and maybe should be called the Tocqueville Precious Metals Fund. But I consider our mandate to be precious metals, which is basically gold, silver, platinum and palladium, strictly speaking, and that is what the world thinks precious metals are.

**Q:** *Were you surprised at the extent to which silver has outgained gold handily in the past six months? Has it been a shock to people who follow these things professionally?*

**A:** Well I suppose. We owned it so we are happy.

**Q:** *In terms of thinking about silver prices, how useful to you is the gold-to-silver ratio?*

**A:** It is something I take note of.

**Q:** *An ounce of gold is now about 35 times silver. I am told historically the ratio is more like 20 times. Do you see that ratio returning to a more historic norm and is that an argument for loading up on silver?*

**A:** My argument for silver would be pretty much the same as I have for gold, which is basically monetary degradation of paper money. I think the reason silver could do better from time to time is because for one thing it was more in the penalty box because it cratered in 2008. That should have taught people that silver, for all of its attractions, still has enough of an industrial case for it. So if you fear deflation (and a weak global economy) silver would not be the place to be.

**Q:** *Assuming that there is enough industrial demand for silver, do you see the price of silver continuing to rise ahead of gold in the near term?*

**A:** Percentage wise, anything with a $40 an ounce base as opposed to a $1500 base has the greater potential to outperform. That's why Nelson Bunker Hunt tried to corner it.

**Q:** *Let's talk about mining stocks. I know that you look at the relationship between the value of the Philadelphia Gold/Silver Sector index, a proxy on mining stocks, and an ounce of gold, as a rough gauge of how gold miners should be valued. Right now it's about 15%, which is where it was when you last talked to Barron's. Does that mean that mining stocks are still on the cheap side?*

**A:** Yes, in my opinion, they are still cheap.

**Q:** *What mining stocks have you bought lately?*

**A:** I bought about 10 big cap stocks the day after Obama's recent speech giving the Democratic viewpoint on the budget. For example, I bought shares of **Newmont Mining** (ticker: NEM) **Osisko** (OSK), **Goldcorp** (GC), **Agnico-Eagle Mines** (AEM), and **Royal Gold** (RGLD), among others.

**Q:** *If you only owned one or two gold stock, what would they be and why*?

**A:** Goldcorp is our biggest holding.

**Q:** *And what do you like about Goldcorp that makes it your biggest holding?*

**A:** Actually it's worth talking about because the reason it is our biggest holding is that we already own it and then one of our biggest juniors, Andean American, got taken over by it. What's good about Goldcorp. is that of the big-cap companies, they have the best defined, most exciting growth profile.

**Q:** *Right. A very different company is Osisko, which you also have a big position in. This is very much a development stage company, more of a promise of things to come rather than a proven company.*

**A:** Except they just poured gold for the first time. We started with Osisko at 50 cents a share. And we believed the guy had an interesting theory on gold deposits in Québec and it became clear to us that this thing could be a mine and so we financed him at various stages as he needed more capital and so that became a big holding partly through appreciation and partly through the fact that in second and third rounds of financing to build the mine, we were there.

**Q:** *Got it. One of our Barrons.com columnists, Mark Hulbert, recently wrote that gold is due for a pullback simply because of a complete absence of a "wall of worry" among gold investors? (See "* **Is a Near-Term Pullback in Store for Gold?** *, April 12, 2012)*

**A:** I am very conscious because we got into gold as a contrarian idea and now it is becoming mainstream. So to me it is very subject to pullbacks.

**Q:** *I want to finish off by talking about gold's role in an investment portfolio. If an investor is say 40 years old, has $2 million in investable assets, and makes around $200,000 a year, how much should he have in gold-related investments?*

**A:** I think about 5%. And that should be split between a gold ETF and the Tocqueville Gold Fund.

**Q:** *But if someone sees the stellar annualized returns of your fund and believes that governments won't support their currencies, they might reasonably ask, why just 5%, why not higher?*

**A:** Because I would sound irresponsible if I said what I really think. I would gladly do something different if I thought it was warranted.

**Q:** *If President Obama could magically replace Bernanke with someone like former Federal Reserve Chairman Paul Volcker, a true inflation fighter, might you shut down your fund?*

**A:** Absolutely.

**Q:** *Thank you.*

**E-mail: john.kimelman@barrons.com**