TIM
UNDERWOOD

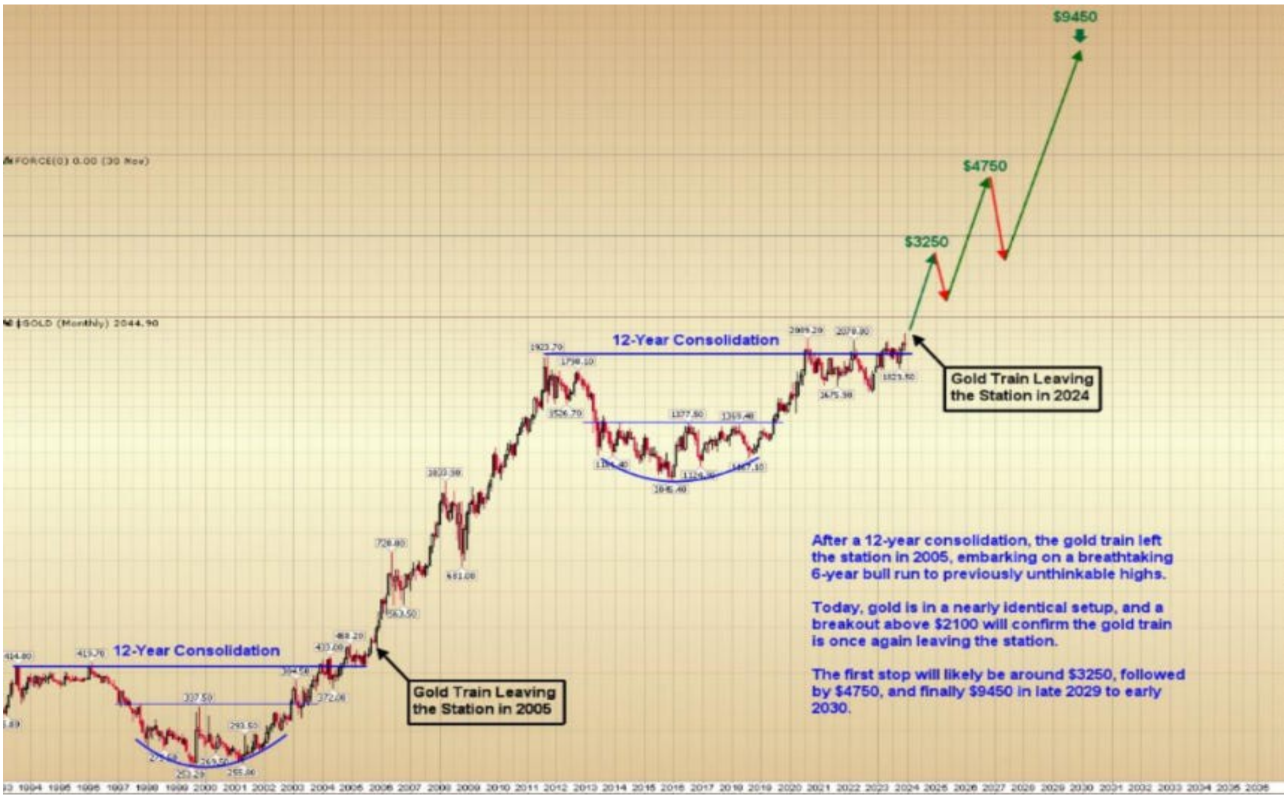
Monthly Newsletter – April 2024

Last month I mention that the price of gold has started to rise. Fans of technical analysis provide an interesting perspective of what could unfold if we enter into a full-fledged bull market for gold. It is not uncommon for gold to appreciate by multiples in gold bull markets.

For example from 2001 to 2011 gold went from $260 to $1,900 or 7x the starting level. The current bull market in the chart below began in December 2015 at $1,050 . We are up to around $2,300 today or over 2x the starting level. With the global economy as it is, some believe the rise from the year 2000 will be repeated with the endpoint of this bull market higher by a similar multiple. But if we do not get to 7x, we will achieve a good performance if gold only gets to $3,000 in 2025.

Of course there will be times when the price goes down as well as up, indeed at the moment traders see the price high, compared to the 200 day moving average, so one can expect some pull backs, but it is the overall trend that matters longer term.

Gold can be thought of as a type of "insurance" rather than a short term trade. Also it is most often quoted in US dollars a currency which has been strong in recent years compared to other currencies. In Euro terms and GP pounds the rise in the gold price is higher than in dollar terms. In Yen terms gold is up by 24% this year alone, as the Japanese currency falls to its lowest level for decades. When people get fearful of their own currency, they buy gold.



But it is gold company shares where the bigger potential can be found. It is said there are three things that will help make gold shares go up in value :

1. The company expands its production and mines more ounces to drive cash flows higher.

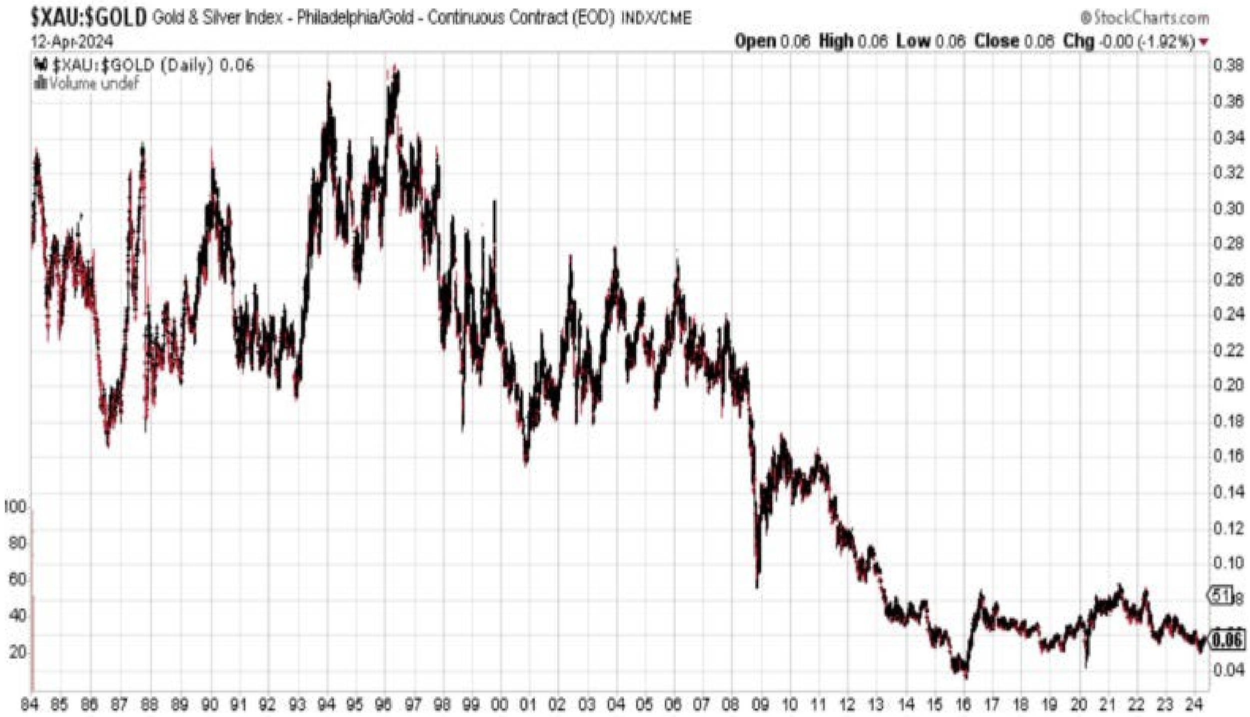
2. Gold prices go up and profit margins expand (higher operating leverage on fixed cost business).

3. The stock multiple expands as investors are willing to pay more for a growing free cash flow.

Some strongly believe that we are about to enter a positive feedback loop on all three of the above.

If this is the case the chart below shows a ratio of just how cheap gold mining stocks are today vs. the price of the metal. The chart shows the XAU Gold and Silver stock index divided by the price of gold. Note how the XAU index has declined to a record low versus the gold price.

If this ratio were to return to its historical mean (around 0.18), then gold shares could go up from 0.06 today, by 3x times!



There are no certainties such price moves will occur in gold or the gold miners or indeed the time in which it develops, but the charts do get the technical investor excited and an allocation to gold in a portfolio makes sense. Especially if you think, as I do , that USA Fed's interest rates will be closer to 2% next Spring than the current 5%.

Best wishes

Tim 6 May 2024

See www.timunderwood.com for details and newsletters Contact tim@timunderwood.com