TIM
UNDERWOOD

Newsletter – August 2025

My April 2024 newsletter made the case for a rising gold price and this has come true. The gold price then was around $ 2,400 and today it is touching $ 3,500 a rise of 45% in 16 months. Technical analysis was predicting a major break out higher. After several years consolidating around $ 2,000 it finally broke higher and based on earlier moves, the potential was very positive.

Technical analysis should not really work. Why should the price of gold or any asset move in certain patterns. Are they not driven by fundamentals and the past is no guide to the future? The way they give patterns names such as "cup and handle" or "head and shoulders" or even "inverse head and shoulders" suggests a spurious science to unpredictable price movements. Especially as they create chart lines and call them "support" or "resistance". It sounds more like a Yoga course! But although price movements do not repeat they do rhyme it seems. This is especially the case when fundamentals are also in support of a rising gold price and this is surely the case at the moment.

The April 2024 newsletter went on to mention that the bigger prize might be in the gold mining companies. Up until the start of this year the shares of these companies had not performed especially well. The gold price was rising but the producers were ignored. A case was made that the gold price was driven by central bank buying and they do not buy shares. However that has all changed this year and the miners are much higher. The gold mining index called GDX is up 80% since the start of 2025 and some of the miners in that index have done even better. Company analysis has been playing catch up since profit projections made a year ago with a gold price much lower, now need to be quickly upgraded.

All investments have some risk. At the end of February 2020 when the CV19 fears led to a drop in stock markets, gold and gold miners were also impacted. In times of falling markets some investors are too highly leveraged and need to sell anything to cover margin calls. There is always a bid price for gold so some investors sold. But after a modest drop gold then surged from $ 1,500 to $ 2,000 as central banks pumped money into the system. A similar thing happened in the 2008/09 stock market crisis with gold falling from $900 to $730 and then rising all the way to $1,800 just 3 years later.

Gold bullion and gold shares are not the same. Bullion is more of a safety holding, a form of insurance against financial turmoil. The gold miners on the other hand, are corporate shares and are impacted by global equity markets. The technical analysis may or may not signal the way forward but, for the moment, the attraction of gold and gold miners in a portfolio is far from over.

Best wishes

Tim Underwood 6 September 2025

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