

Contrarians Take Note

- The current issue of Barron's features an article entitled "Buy When the World Is Selling." The subtitle reads "Investors love to hate commodities these days, which is a good reason to consider them for your portfolio." The closing sentence of the article reads "A lot of hot money that came into the [commodity] market has found its way out. When that happens, the smart money gets back in."
- According to data provided by the U.S. Mint, in October sales of American Eagle silver coins hit the highest volume in two years and sales of gold coins also climbed.
- Gold is among the commodities included for consideration in the Barron's article.
- Last week, the Forum discussed various types of mutual funds including closed-end funds (CEFs). A CEF is a corporation whose sole function consists of holding and managing a portfolio of a specific asset class (e.g., stocks, bonds, precious metals, etc.) A CEF can sell at either a premium or a discount to the net asset value (NAV) of its portfolio. Often such premiums or discounts reflect the popularity or unpopularity of the asset class held by the fund.
- The Central Gold Trust (ticker symbol GTU) is a CEF that holds a portfolio of gold bullion. The fund has a website at www.gold-trust.com. The fund audits its portfolio in storage and insures it against theft.
- GTU was recently selling at a 9% discount to its NAV. Back when gold was popular, the fund sold for a significant premium to its NAV.
- The advantage of owning a CEF versus an exchange-traded fund, such as the SPDR Gold Trust (GLD), is that when gold takes on popularity the fund does not receive cash directly from buyers that results in bullion purchases in a rising market. Similarly, when gold loses popularity and shareholders sell, it does not force liquidation of bullion in a falling market. GLD has had to sell a large quantity of gold as the price fell and the precious metal lost favor. Instead, with a CEF, investors simply trade shares of the fund corporation on a stock exchange at the market price just like any other corporation. This helps insulate the fund from asset volatility and eliminates forced sales in illiquid markets.
- Caveat: This is for information only and does not constitute an endorsement of commodities or precious metals. If you find this to be of interest, perform your own due diligence and reach your own conclusions. Not every contrarian investment is rewarding and few are rewarding in the short term.