MarketWatch
THE WALL STREET JOURNAL.

Jan. 29, 2014, 9:55 a.m. EST

# Crisis in Argentina sparks new gold rush

## Why now's the time to be bullish on gold-mining stocks

By Brett Arends

Several weeks ago I bought the one asset that all investors seem to hate.

I bought some stock in gold mining companies.

No, I haven't gone gold bug or paranoid. I'm not dressing up in camo or wearing tin foil on my head to stop radio waves from NSA satellites.

The actual cause was simple. Gold mining stocks had fallen so far out of favor that they had triggered the Bennett Rule—a rule named for my old friend, and money manager extraordinaire, Peter Bennett in London.

Bennett, a private-client money manager with an excellent track record going back 40 years, has an old rule of thumb: Take a modest wager on any durable asset (i.e. not Pets.com) when it has fallen more than about 60% from its peak.

Most of the time, he has found, over the subsequent five years you will do very well indeed. It doesn't always work, but it does most of the time.

Today your average money manager would rather suck a lemon than own shares in a gold mining company.

In April 2011, the Philadelphia index of Gold & Silver miners (NPI:XAU) hit a peak of 229. Near the end of last year it touched 80—a fall of 65%. (It has since rebounded to 91.)

Gold itself has tumbled a long way, from a peak of around $1,900 an ounce in September 2011 to $1,263 now. But the stocks have fallen much further than gold itself.

The Philly index is now at its lowest level, when compared with the actual price of gold, since FactSet began tracking the data in the mid-1980s. I'm betting that gold mining stocks are the cheap way to play gold. The market value of Newmont Mining Corp. (NYSE:NEM) , the industry bellwether, briefly fell below the value of its net assets.

Gold mining stocks are an “orphan asset” these days. They are generally unwanted and unloved by investors.

Gold bugs don’t want them. They think they are paper assets, and therefore rubbish.

Meanwhile, mainstream stock investors don’t want them either. They think they’re gold—and therefore rubbish.

As a result there is a very good chance they are trading lower than they should be.

I invested money in the Market Vectors Gold Miners exchange-traded fund (NAR:GDX) , which simply owns a basket of gold mining stocks.

Naturally, I have no idea what is going to happen next to the price of gold. And incidentally, if history is any guide, I will turn out to be too early.

The speculative boom has clearly reversed itself dramatically. The SPDR Gold Trust exchange-traded fund (NAR:GLD) , the largest such bullion fund, has been forced to sell off 40% of its bullion since late 2012 as investors have withdrawn their money. The fund’s stores of gold are down to their lowest levels in five years.

Investors seem to be furious that gold has done badly at a time when stocks have done well. (Funny, I thought that was the point—that the two were supposed to be uncorrelated?)

Conventional wisdom says that gold is a completely useless investment, a “barbarous relic” from a primitive and bygone age. It serves no financial purpose whatsoever.

I have some sympathy with that point of view.

But, there again, try telling that to someone in Buenos Aires.

I notice that the latest financial crisis in Argentina, and the collapse of its national currency, the peso, has sparked a new bull market in gold down south.

Any Argentine with some bullion buried in his backyard has seen its value rocket 25% this month alone in terms of pesos, according to data from FactSet. An ounce of bullion will now buy 10,000 pesos, a record high. That’s compared with fewer than 8,000 a month ago. Gold is proving to be a very good safe haven in the crisis.

And this, I should add, is using the “official” exchange rate for pesos. According to Reuters, in the back streets of Buenos Aires the national currency is now changing hands into foreign currency for as little as 60% of the official rate.

In the past five years, the value of gold has trebled when measured in pesos—again, using the official figures. In the black market it has risen further.

Many economists say inflation is now running at 25% a year in Argentina. According to the Troubled Currencies Project, a joint venture of the libertarian Cato Institute in Washington, D.C., and Johns Hopkins University, the real inflation rate is as high as 74%.

Yikes.

The situation in Argentina may be exceptional, but it is not unique. For example, the value of gold has perked up in Brazil, and has risen about 20% in a month in Turkey. Gold has been in a bear market in U.S. dollars since the summer of 2011, but of course it rose dramatically over the preceding decade.

“We view gold as an insurance policy,” says Josh Strauss, co-manager of the Appleseed mutual fund (MFD:APPLX) , which had a hefty 17% of its assets in gold as of Dec. 31, 2013. People in Buenos Aires know just what he means.