

Gold by Montresor

The oligarchy goes west

Multi-hundred-million dollar investments in U.S. mining properties are now under way.

Sixty percent of the world's bullion supply is held by Western European investors, in hoards that never sell. Only 10% is held by Americans. As the International Gold Corporation writes in a recent paper entitled "Gold: An Economic Analysis of Supply and Demand":

"Our analysis implies that privately held above ground gold stocks pose only small risk to the dollar gold price. These stocks were estimated at approximately 10,000 metric tons in 1980, equally divided between coin and bullion. They represent an inventory equal to about 25 years at current rates of coin and bullion accumulation. While changes in the dollar gold price over our sample period have substantially increased the value of these stocks, there is no evidence of substantial net dishoarding to reap windfall gains, particularly in 1973-74 and 1979-80. And the liquidation accompanying the 25% 1981 dollar gold price decrease was modest, less than one billion dollars, compared to a 50 billion dollar reduction in the market value of all privately held above ground gold stocks. Bullion and coin demand appear to be true hoarding phenomena, sensitive to changes in the external international environment, rather than the size of existing above ground stocks."

Very quietly, during the past year, several hundred million dollars of European capital has accumulated what might be called below-ground gold stocks in North America. The investors include the major British and

South African mining companies, leading European metals and chemicals firms, as well as wealthy private individuals.

For the individual investor, this report is bittersweet; it shows the extent to which sophisticated money appreciates gold as an investment, but also how far removed the individual of modest resources is from access to the best form of investment.

The Europeans are extending their interest to below-ground gold stocks for four very good reasons.

First, the ability to buy gold at the cost of production rather than at the market price permits fewer investment dollars to turn into more actual gold.

Second, the weakness of the gold price translates into financial desperation on the part of numerous owners of mining properties and technologies, and bringers of substantial capital can strike remarkable bargains in the present environment.

Third, small investors have no hope of participating in such direct investments, and even less hope of benefitting from gold mining investments through investments in development-stage, or penny-stock mining companies.

Fourth, Americans are too dull to appreciate the opportunities involved.

I know personally of more than \$75 million worth of investments by Europeans, Canadians, and South Africans in American precious-metals mining during the past year alone. It also appears that these investors, along

with a few from Hong Kong and the Philippines, represent the only capital sources available. For example, one of America's best-known and most prestigious venture-capital firms has sought in vain for an entire year to raise several million dollars of equity for a highly attractive mining venture in California, with proven reserves and proven recovery technologies. American investors simply appear to be uninterested.

As hinted above, this is hardly a recommendation for the tawdry race of Vancouver or Denver gold-mining stocks. Although one or two might, the pattern to the contrary, represent viable investments, the penny-stock market represents the nastiest form of suppression of mining development. This works in two ways.

First, so many fraudulent mines are offered to investors that even portfolio managers, let alone individual investors, find it impossible to distinguish between the real and the false. No one who does not employ both a good geologist and a metallurgist specializing in precious-metals refining has a hope of knowing whether a certain mine is good or not.

Second, the capital costs of developing even a relatively modest gold mine (compared to the well-known South African or North American mines) are enormous, running well into the tens, if not hundreds, of millions. Penny stocks are merely a form of speculation in gold-bearing land; the funds raised through their initial offering are usually inadequate to complete exploration and prove reserves, let alone to mine and refine gold or silver.

Under the rather unusual circumstance that a gold penny stock were to prove reserves, the public company would have to cede enormous advantages to whoever brought capital to proceed to the mining stage, at the expense of the existing stockholders.