ACORN CAPITAL MARKET INSIGHTS

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GOLD RUSH OR FOOL'S GOLD – NAVIGATING A GOLD BULL MARKET

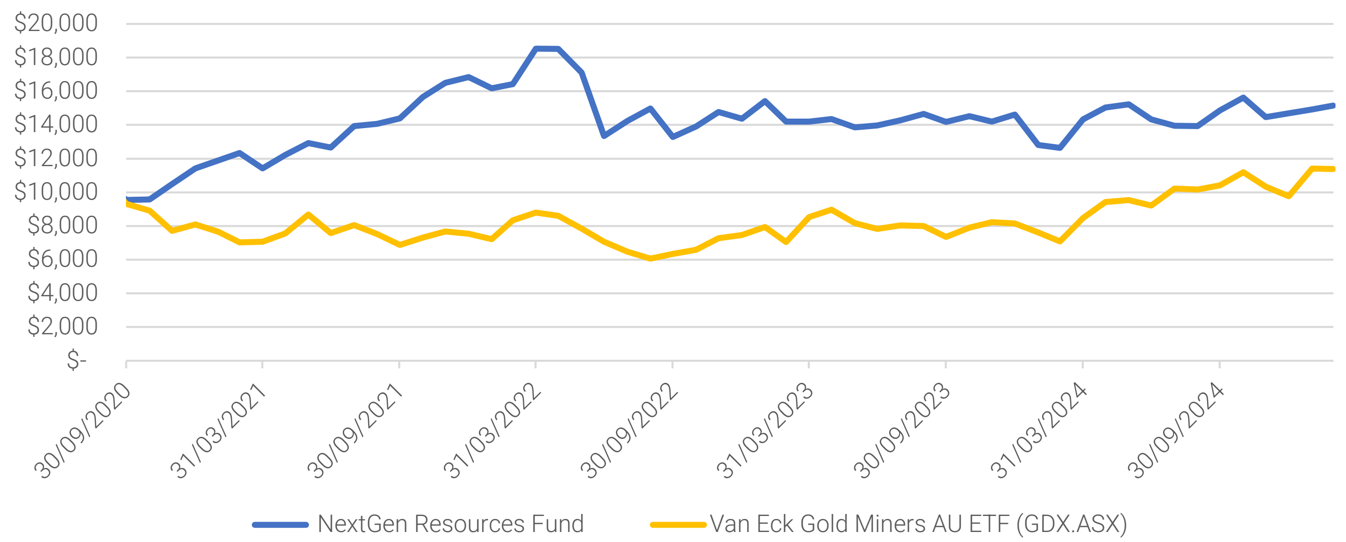
The bull market in gold is getting a lot of attention from investors, especially at a time when sector favourites, such as the large Aussie banks and big US tech stocks, are under pressure. For investors, the good news is there are several ways to play this bull market. But which option is best? And what insights can be drawn from recent performance?

Below we cover both the advantages and disadvantages of investing in a gold-exposed ETF versus a gold fund, then compare these with the NextGen Resources Fund, which is a diversified resources fund. The NextGen Resources Fund currently has about 54% of portfolio weight exposed to gold stocks[1]. The fund extracts value through bottom-up investing and understanding the dynamics of commodity cycles, such as those experienced in a gold bull market.

There are two key issues that investors should consider when investing in a commodities bull market. First, can you time the top of the market? Remember, 12 months ago we were in a uranium bull market, 24 months ago it was a lithium bull market, and 4 years ago rare earths and cobalt were the hot commodities. In these 3 examples the downturn was rapid, and many investors got caught out as the thematics dissipated. Second, investment managers love to respond to the demands of the market and some will offer products that meet a short-term need, but do these products and/or the managers have a process that can be scaled, especially when investing in a single commodity?

Note that when we refer to gold, it is for the mining companies (producers, developers and explorers) and not the physical bullion. In the below chart we reference the Van Eck Gold Miners ETF (GDX.ASX) which tracks the one of the largest global gold miners indices (NYSE Arca Gold Miners Index AUD). This is for information only and to provide a guide to the underlying universe of gold companies.

Chart 1: Growth of $10,000 to 28 February, 2025



Source: Acorn Capital & FactSet. Returns are since inception for the Acorn Capital NextGen Resources Fund, September 2020. Returns are shown post fees and pre-tax. Past performance is not an indication of future performance.

Gold ETF

Investing in a gold exposed Exchange Traded Fund (ETF) may sound like a good way to play the bull market, but if you get the timing wrong you may be backing the wrong horse. This is particularly the case for an ETF that tracks the gold miners, compared to an ETF for gold bullion.

The advantage of a gold miner ETF is you get exposure to a range of gold stocks that are commonly in the production stage and thus lower risk than those stocks who in the exploration or development stage. In the initial phase of a bull market, this a great place to invest because as margins rise, so do profits. However, once the producers are fully valued, investors typically cycle capital into the developers, and later into the explorers.

1. As at 26 March, 2025

Therefore, as the bull market starts to mature, the share prices of the producers commonly trend sideways as the investors sell out and move down the curve to the developers. Good examples of this are the large steady-state gold producers, such as Northern Star and Perseus Mining, which performed strongly to October 2024, but have essentially gone sideways in the last 6 months.

Another disadvantage of the Gold ETF is when the bull market enters its final stage and the explorers flourish, these products have very little exposure to this end of the market. Although this is a riskier part of the market, this is where experienced fund managers can be very successful in extracting higher levels of both absolute and alpha performance.

Gold Funds

Gold funds are managed investment vehicles that can cycle from producers into the developers, and in some cases into explorers. In the middle phase of a bull market, which it could be argued is where we sit currently for this gold cycle, this flexibility can be a better option for extracting value through the commodity cycle.

However, there are other risks with gold funds. When the bull market ends, all boats drop on a falling tide. In a gold-only fund there is nowhere to hide, and the market usually falls a lot faster than it went up. If locked in by a single-commodity focus, the manager is unable to cycle from gold into another commodity where future value may exist and sharp drops in liquidity can make it very difficult to redeem money. This is especially the case where the underlying exposure may be explorers and early-stage developers.

Other potentially larger problems also include the ability of managers to successfully scale their investment process in a single commodity. Gold stock currently comprises about 25% of the ASX Resources sector. Thus, a fund manager with $100m of FUM will have a process and track record of managing about $25m of gold stocks. If that manager then starts a $75m gold fund, which has a strong focus on explorers and developers, in the mature phase of gold bull market, they will be managing 4 times as much money in the same part of a potentially illiquid market. This is big leap and thus a big risk.

NextGen Resources Fund – gold exposure with protection via diversification

Utilising some 25 years of investment experience in the Resources & Energy sectors, the NextGen Resources Fund uses a process that involves cycling between (a) the producers, developers and explorers, and (b) the different commodity types. This provides both protection in a down-market and exposure to the full duration of a bull market. Also, the process is scalable, even during the final phase of a bull market when returns are predominantly generated by explorers and developers.

Picking the top or the bottom of commodity markets is impossible. Instead, investors should look for an experienced fund manager with a process that can capitalise on the upswings and protect on the downswings. This is what the NextGen Resources Fund was set up to do.

As an example, since its inception in September 2020, the NextGen Resources Fund has outperformed the Van Eck Gold Miners AU ETF (GDX.ASX) (Chart 1). This outperformance is largely driven by the fund's investment strategy to adapt to different market conditions.

We encourage investors to challenge their thinking on investing in pure play gold products and know the risks that could be awaiting them in the future.

For Further Information

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