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Why veterans are bullish on gold and resource stocks

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A resources conference could be a pretty depressing place to be after the long slide for gold and natural resource stocks, but at Canaccord Genuity's annual gathering, the optimism from four veteran investors was starting to bubble.

The 2013 Canaccord Genuity Global Resources conference took place last week at the upscale Fontainebleau Hotel in Miami Beach, Fla. In front of an audience of industry peers, a quartet of long-time mining and energy investors predicted a rebound in gold and natural resource equities: Entrepreneur and philanthropist Frank Giustra; Randall Oliphant, executive chairman of New Gold Inc.; Frank Holmes, chief investment officer and founder of U.S. Global Investors; and Canaccord chief executive officer Paul Reynolds all agreed that the building blocks were in place for a rebound.

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The speakers have a vested interest in seeing the price of gold and resources shares higher. Even so, the optimism was particularly notable from Mr. Reynolds, who had been saying until now that the bear market in mining could last a few more years.

The Canaccord CEO, who had accurately predicted gold and junior miners would continue to fall in an April, 2013 interview, told attendees that a bottom was now in place for both asset classes.

“I think the price of gold will start to appreciate now, and you have to be very selective in the junior resource sector,” he said. “I see great value in a lot of development companies, junior producers, and mid-cap companies... in both the mining and energy sectors.”

Mr. Giustra, who has been an ardent gold bull since 2001 and made a fortune in the bull market, reiterated his philosophy about owning bullion. He cited quantitative easing with no end in sight, saying “there will be no tapering,” and also warned of the \$17-trillion (and growing) U.S. government debt, unsustainable borrowing costs, anemic growth, and global currency wars.

“All the reasons gold went from \$250 to \$1,900 are still intact,” Mr. Giustra told the audience. “In fact, they’ve been amplified ten-fold.”

Washington faces a choice, Mr. Giustra said.

“They can either default, or print money... And they’ll never default.”

Governments and their affiliates intentionally talk down gold in times of crisis, according to Mr. Giustra, because growing gold demand shows a lack of confidence in their policies.

Alongside Mr. Giustra, Mr. Holmes agreed that large corporations and the wealthy are benefitting from the Fed printing currency. At the same time, middle-class Americans are having trouble just getting simple loans.

“Those who understand cheap money have the first mover advantage,” Mr. Holmes said.

Mr. Holmes also told the crowd that resource stocks are the most under-appreciated and under-owned they’ve been in the past 30 years – he expects a “huge” mean reversion over the next two years. That will propel resource equities higher.

The panelists agreed that the frozen mentality of mining executives was paving way for a big recovery in natural resources and gold equities.

“The mining industry always does everything at the wrong time,” said Mr. Oliphant, who last month was appointed chairman of the World Gold Council, the leading market-development group for the gold industry. “There was record hedging at a 20-year low in the late 1990s, then all the gold CEOs bought their hedges back as gold was hitting all-time highs... Now the valuations are probably lower than they’ve ever been, and everybody’s afraid to move.”

Mr. Oliphant believes that now is a great time for mining companies to be considering acquisitions, with valuations for quality gold equities off by as much as 80 per cent.

“This is the worst I’ve seen in my 35-year career,” said Mr. Giustra, who believes sellers have been exhausted and that interest is starting to return to the sector. “Many companies in the junior space have great assets that are horribly undervalued. It will take intelligent, selective investors... They are going to make a lot of money, while the rest of the sheep are waiting for somebody to ring the bell. And nobody’s going to ring the bell on this one.”

“This is probably the perfect time for a CEO with big cojones to go out there and take advantage,” remarked Mr. Giustra. “Someone who has some vision and courage can really seize this opportunity.”

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