How to Make 10x Your Money When Gold Soars to $20,000

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At first blush, the idea of gold at $20,000 per ounce might sound a bit far-fetched. After all, at its apex in 2011 the precious metal never crossed $2,000. Its subsequent decline, despite the trillions of dollars in newly minted money that central banks pumped into the global economic system, recurring euro zone crises that periodically threaten to destroy the currency union, and rising geopolitical tensions (Islamic State, Iran, Russia, North Korea squaring off against the West, China's sabre rattling in the South China Sea) have caused some analysts to opine that gold no longer has much upside.

We strongly disagree with this premise. Instead, we view the past few years as merely a correction for gold—within the context of a long-term secular bull market. To refresh your memory: as this century began, the metal traded at less than $300 an ounce. After a nearly seven-fold rise to its 2011 peak some sort of consolidation was to be expected. And the correction, which now appears to have run its course, has been entirely consistent with those that occurred in past bull markets in other asset classes.

One reason we're so bullish on gold: today's economy looks very differently from any we've ever encountered: the world economic scene is balanced between high-inflation and deflationary extremes. But in the end the high-inflation forces are likely to triumph.

Efforts to combat the deflationary forces of the Great Recession of 2008, decades-long economic malaise and the euro zone crisis, have centered on monetary easing. The result has been an unprecedented flood of money poured into the global financial system. It caused debasement of major currencies worldwide. Yet the U.S. dollar, seen as the best house in a bad neighborhood, has bucked the trend.

And the rising greenback has translated into gold price weakness. This trend, however, cannot persist indefinitely and we expect the subsequent move in yellow metal to be substantial.

Gold remains cheap by historical standards. One measure of gold's relative expense or cheapness at any given moment: compare the amount of gold in circulation to Gross World Product (GWP). If we assume that nominal world growth will average 5 percent annually over the next five years, not an unreasonable projection, then the price of gold would have to climb to about $5,500 per ounce before the total value of global supplies reaches its previous peak relative to GWP reached during the 1970s.

Consider now how well gold performed back then: even after adjustments for inflation, the metal gained 22 percent annually during that decade. When inflation gains a stronghold at the consumer level this time around, gold should really take off—with gains as great, if not greater than during the late '70s through early '80s. We can't say precisely how soon this will happen, but we think when it does occur the move is likely to unfold quite rapidly. This warrants taking a position in the metal right now.

Remember that gold has functioned as a reliable store of value for longer than any other asset. This longevity may seem like a minor trait, especially in today's world where short-term thinking has become predominant. However, this quality brings people to buy gold during periods of crisis and uncertainty. Gold has withstood revolutions, wars and the births and deaths of empires.

Today to varying degrees, many central banks hold gold as a reserve asset. And it remains a traditional savings vehicle for individuals throughout much of the world, especially in China and India. We think China in particular has big plans for gold.

The Chinese government actively encourages its citizens to buy gold as a means to channel savings into investments. They go so far as to run TV ads to extol the virtues of gold ownership. Any Chinese person can walk into a Chinese bank and purchase gold (at a smaller premium than that paid in the U.S.) and buyers can conveniently store their metal at the same bank where they buy it. There's a solid rationale behind China's gold strategy, in contrast to no such strategy here in the U.S. The more gold its citizens own, the greater the government's control over its citizens' wealth and well-being. We expect China eventually to use its sizeable and growing gold horde to back up the yuan.

Given the inclusion of the yuan in the International Monetary Fund Special Drawing Rights, China's desire for economic and trading hegemony in the East and in light of the ongoing debasement of the dollar, the euro and the yen, we think Chinese leaders want to establish a gold-backed yuan. This would allow the Chinese to tell trading partners that they can exchange one yuan for a certain amount of gold.

This in turn would make the yuan a close substitute for gold. Alternatively, we think China could use some form of virtual currency—one of its own creation—to replace the dollar. We don't think anyone can guess point by point what the plan will be, but the currency will almost surely be a basket that includes gold, the yuan, and perhaps some other paper currencies. The goal will be to segue from a dollar-based reserve currency to a gold-center monetary system. This new currency will probably be introduced as the denomination for trading an Eastern oil benchmark that the Chinese will control.

If China increasingly dominates international trade as we expect, and it's using an alternative currency backed by gold, this would send the price of gold soaring to incredible levels as there simply isn't enough gold in central bank reserve to back up the value of international trade. Central banks would have to clamor to acquire more gold and they'd have to revalue gold at a much higher price. In a world of growing resource scarcity, owning gold is as close as you come to controlling your fate.

At current levels, even after a decade of outperforming other asset categories, we are not afraid to say that gold is downright cheap. Down the road, with inflation running much higher than today's levels, $1,200 per ounce gold is likely to be a distant memory.

In this report, we highlight four mining companies we think offers excellent leverage to gold.

Mining stocks offer leverage to gold that just investing in gold itself—either the physical metal or a proxy such as an ETF—cannot. For example, a 10 percent gain in gold prices may result in a larger-than-10-percent gain for miners' profits.

Conversely, a 10 percent fall in gold prices may result in a larger-than-10-percent loss in profits. Of course, in recent years, because gold prices have fallen, that leverage has worked against the mining shares.

If, however, as we believe will happen, gold reverses its course in the coming years, the stark under-performance of both small and large gold mining companies and the resulting attractive valuations relative to their reserves on their shares will give those investors who put faith in the yellow metal remarkable returns. Given the profit potential, the money needed to extract those reserves will become available to the miners. And before long, the current valuation imbalance is likely to be corrected with the shares staging an impressive comeback.

Moreover, if our assessment is anywhere close to the mark and inflation ultimately results from all the money printing that has taken place in the world in the last decade, and what we see is a changing world to be economically dominated by China, the bull market in gold shares in coming years will likely dwarf any investment bubble in living memory.

With this in mind, owning the battered gold shares is a must.

Nova Gold (NYSE:NG)

Nova Gold (NYSE: NG) offers an opportunity for investors seeking leverage to gold. It is a precious metals company engaged in the exploration and development of mineral properties in North America. A junior miner, Nova Gold has a reserve/resource base comparable to many of the mid-tier producers. Committed to operating to the highest environmental standards at all of its projects, Nova Gold's success comes from its experienced exploration team and its ability to forge collaborative partnerships with Native Alaskan and First Nations groups, local communities, major mining companies and regulators.

Nova Gold now focuses on its growth-oriented Donlin gold mine in Alaska. Donlin is one of the world's largest undeveloped gold deposits and is expected to be one of just a handful of gold mines worldwide capable of production of more than one million ounces of gold annually. A Feasibility Study estimates the project contains 33.9 million ounce of Proven & Probable gold reserves with an anticipated mine life of approximately 27 years, and producing an average 1.1 million ounces of gold production annually.

Keep in mind, too, that the location of the property in the U.S., without the geopolitical risks associated with many of the mines located in less-stable countries, is a major plus for Donlin.

NovaGold expects to file the final Environmental Impact Statement (EIS)—a critical document in the permitting process—in early 2018. A preliminary draft was published in November 2015, marking a significant milestone before the start of public hearings and a call for public comments. The EIS describes the U.S. Army Corps of Engineers public scoping process and its work with cooperating agencies to identify and select several reasonable alternatives to the Donlin proposals.

NovaGold and its partner **Barrick Gold (NYSE: ABX)** have recently started an $8-million drill program designed to collect geologic and geotechnical data to further optimize the project. The goal is to enhance the project economies through a more cost-effective project action plan that could potential reduce the upfront capital outlay—currently estimated at roughly $7 billion. This is a sure sign that both companies feel very confident that they will secure all necessary approvals and permits and proceed to the construction stage.

The biggest hurdle for Donlin has always been the estimated cost to develop and construct the mine and whether it would attract enough investment to move forward. However, as the likelihood of production increases it will likely attract more investors. It helps that Barrick is the largest gold miner in the world and has greater access to capital markets than NovaGold alone could.

And, if no other American entities are interested in funding the project, we think the Chinese will be very interested. Barrick CEO John L. Thornton has deep ties in China which we trace back to the 1980's. He was instrumental in building **Goldman Sach's (NYSE: GS)** presence in China. He also funded the establishment of the John L. Thornton China Center at the Brookings Institution. He is a Professor and Director of the Global Leadership Program at prestigious Tsinghua University in Beijing. He serves as a member of the International Advisory Council of a Chinese sovereign wealth fund. It's not far-fetched—in fact it is likely—that he will find Chinese investors willing to pony up money for a stake in Donlin.

NovaGold also has a second property in Galore Creek, a significant copper-gold-silver asset in Canada. The project holds an estimated 9 billion pounds of copper, 8 million ounces of gold, and 136 million ounces of silver in measured and indicated resources. Right now the attention is on Donlin—for good reason—but Galore could prove to be a very meaningful asset as well.

The bottom line, expect Donlin to be built and the Chinese to play a significant role in its development. Don't miss out on NovaGold.

Pretium Resources (NYSE: PVG)

PRETIVM

Our second gold stock pick is a junior miner that's well on its way to advancing to a mid-tier producer. Like NovaGold, it owns a high-grade gold mine. In June 2017, it achieved first commercial production.

The company has declared commercial production at its Brucejack Mine, a high-grade underground gold mine situated in British Columbia. Under Pretium's agreement with its lenders, commercial production is defined as the first day of the calendar month immediately following the month (in this case, June) in which its process plant processes ore at an average rate of 60 percent of one-twelfth of yearly nameplate capacity. In Brucejack's case, the nameplate capacity is 2,700 tonnes per day, or 985,500 metric tons per year. A metric ton, or "tonne," is 2204.62 pounds. The first gold pour was achieved on June 20.

Pretium acquired Brucejack—and a second project, Snowfield—from **Silver Standard (Nasdaq: SSRI)** in 2010 for only C$450 million (Canadian dollars) in cash and PVG shares. Permits were fully obtained by September 2015 and construction progressed faster than expected. On June 20 Pretium poured first gold at Brucejack and processed enough ore during the month to qualify for the commercial production milestone.

While Brucejack isn't in the class of NovaGold's Donlin, it's no slouch.

Brucejack holds 8.7 million ounces in proven & probable gold reserves and 31.9 million ounces in proven & probable silver reserves. Due to the high gold grade of the deposit (averaging 14.1 grams per metric ton, considered very good), the cost of mining is expected to be low. All-in sustaining cash cost per ounce is projected to be only US$446 per ounce. The mine is expected to produce on average 404,000 ounces of gold per year during its 18-year mine life, or 7.27 million ounces over its lifetime. During the first eight years of mine life, it may average more than 500,000 ounces a year.

Pretium estimates the post-tax net present value of the mine (at a discount rate of 5 percent per year) is roughly US$1.53 billion. The estimate is made based on the conservative assumption of US$1,100/oz gold and US$14/oz silver. Gold currently trades above $1,200 an ounce and silver nearly $16 an ounce, so the market prices are already above Pretium's assumptions. Obviously, if precious metals prices were to rise, as we expect, the value of the project would be significantly higher than what Pretium estimates.

Earlier in June, the United States District Court for the Southern District of New York dismissed a class action lawsuit brought against the company in 2014 alleging that the company and its directors misled investors about the quality of the Brucejack deposit. So it's been a very good month for the company.
Pretium's other project, Snowfield, is also situated in British Columbia, close to Brucejack. Snowfield contains 25.9 million ounces of measured & indicated gold resources and 9 million ounces of inferred gold resources. It also contains silver, copper, molybdenum and rhenium. Unlike Brucejack, Snowfield projects as a low-grade mine (less than 1 gram of gold per metric ton of ore) and would require higher-priced gold for the project to make economic sense.

Pretium is in a confidentiality and cooperation agreement with **Seabridge Gold (NYSE: SA)**, whose KSM project shares a common boundary with Snowfield. An internal engineering study was conducted in 2012 which determined that it would make more economic sense if the two projects were developed together than if KSM was developed as a standalone.

While Pretium says it does not have to spend money on Snowfield until 2022 and it's currently just sitting on the property as its attention is on Brucejack, Seabridge is actively drilling and studying KSM. As Brucejack production fully ramps up, Pretium may turn its attention to Snowfield and a future collaboration with Seabridge is possible.

A 2010 preliminary economic assessment suggests that Snowfield could yield about 600,000 ounces of gold a year, but the estimated capital expense of $3.4 billion made development of the project unattractive as metal prices fell. So the fate of this project will largely depend on whether the prices of gold and other metals will rise in the long run. If they do, as we expect, then Pretium will likely have another sizeable producing mine in its possession. The bottom line is Snowfield is in slumber now, but still has a shot to be a significant contributor to the company.

Endeavour Mining (OTCMKTS: EDVMF) and Evolution Mining (OTCMKTS: CAHPF)

These two miners have much in common. Both are controlled by the richest family you have probably never heard of. The Sawiris family are Egyptian Copts and have an empire that includes construction, technology, telecommunications and natural resources. Their empire's natural resources division is La Mancha. Think extraordinary success and savvy and a total worth possibly of $50 billion or more. These folks don't make many mistakes and when it comes to gold investing it is important to know the people next to you. Sometimes even the best can get fooled in this arena.

Endeavour Mining (TSE: EDV, OTCMKTS: EDVMF) is domiciled in Canada with its major mines located in Africa. **Evolution (ASX: EVN, OTCMKTS: CAHPF)** is in Australia, where it conducts the preponderance of its business.

Both miners have been increasing production and are profitable. If we are right about gold, both mines are assured strong growth based on the price of gold and the fact that resource currencies like the Canadian and Australian dollars will rise.

Endeavour may be the slightly better bet if only because Africa probably offers more exploration promise, but offsetting some of this promise is a treacherous political domain. But the success of **Randgold**

(Nasdaq: GOLD) has proved that savvy operators can navigate politics. By 2019, Endeavour expects to increase its annual production to more than 900,000 gold ounces and to lower all-in sustaining cost to less than $800 an ounce.

Both miners have been extremely successful explorers and have several very promising opportunities that could increase their gold production. In a major gold bull market these mines have many-fold potential from current levels. They are exactly the kind of investments you'll need for the coming turbulence.

Evolution's production is growing, costs are declining, prospects are high that additional ore bodies will come on stream and lengthen the mine's life expectancy. All six of its mines are located in its geopolitically stable home country of Australia. It has total reserves of about 7 million ounces of gold and 14.2 million ounces of gold in mineral resources (which includes the 7 million ounces counted in reserves). Expected all-in sustaining cost of production is A$900 to A$960 ($686 to $732 in U.S. dollars) per ounce of gold, a low figure for gold miners.

Both companies' shares trade over the counter in the U.S. with Endeavour's shares the more actively traded of the two.

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