Wealthpin Pro

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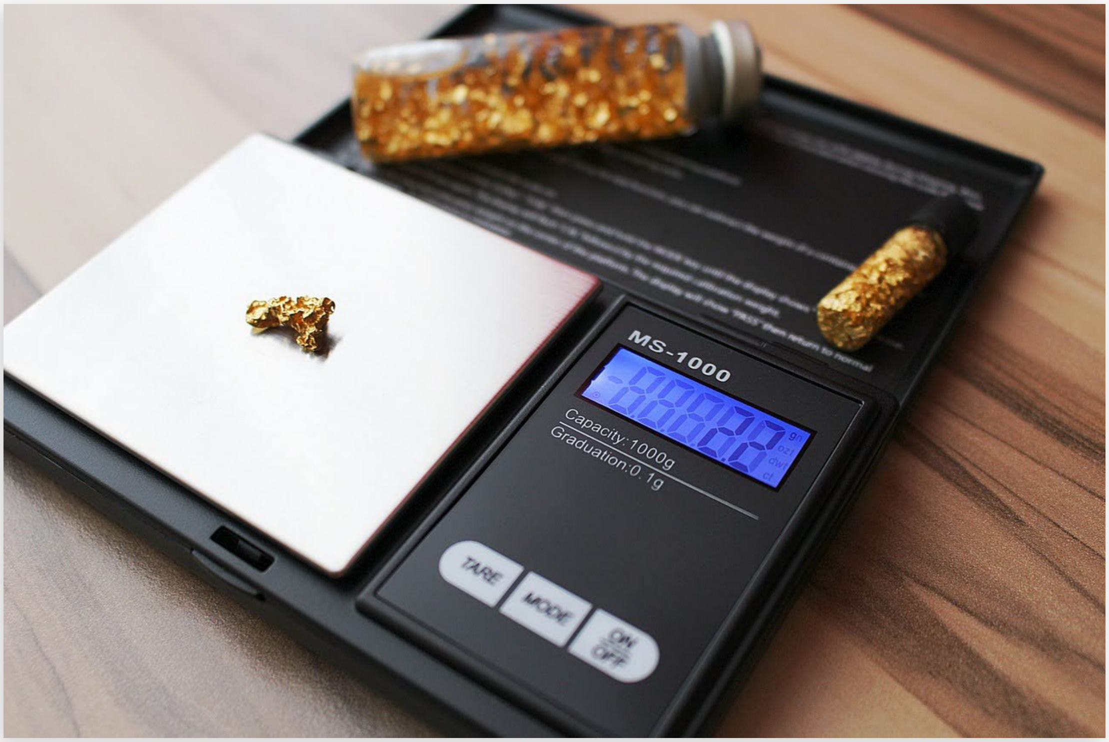
"As inflation comes roaring back, so does gold - here's how to play it"



Hello and welcome to the April 2024 edition of the Wealthpin Pro newsletter.

And we are in the "anything but stocks" stage of the market cycle. People are looking at everything from crypto to treasuries to gold...

(We'll have a lot more on gold in just a moment)

Any kind of asset to get out of the stagnating high interest rate environment that might finally be affecting equities.

And if you want to know just how bad things are getting at big blue chip stocks, Google actually fired 28 employees who stormed into leadership offices and refused to leave as part of a political protest.

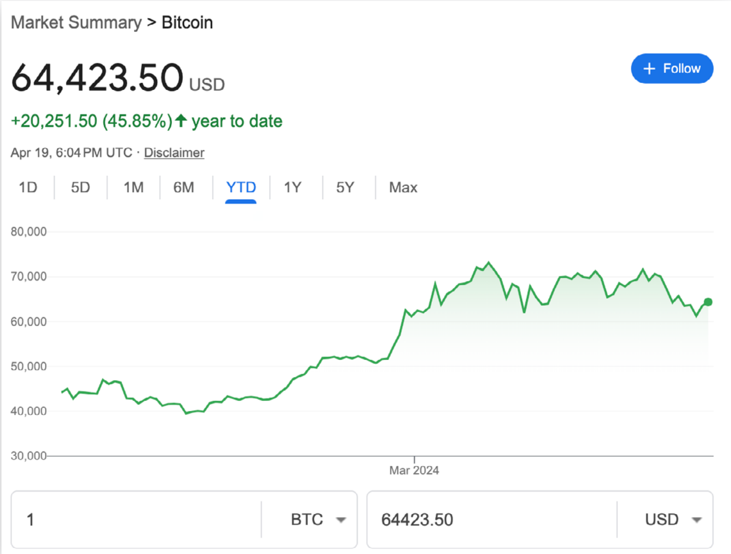
According to Fox:

> *"Google has fired dozens of employees involved in anti-Israel protests that took over the corporate offices in New York and Sunnyvale, California.*
>
> *In a memo to employees, Google Vice President of Global Security Chris Rackow announced that 28 staffers who participated in a 10-hour sit-in at the company's offices… were terminated Wednesday after an internal investigation.*
>
> *"They took over office spaces, defaced our property, and physically impeded the work of other Googlers," Rackow wrote in the memo, which Google confirmed was accurate. "Their behavior was unacceptable, extremely disruptive, and made co-workers feel threatened."*

We don't know about you…

But we don't think this would have happened in a lower interest rate environment that encouraged all sorts of shenanigans at big companies that had nothing to do with the firm's overall mission of creating shareholder value.

So if infamously political companies like Google are finally getting back to working on their core business…



Things must be shaky indeed.

Of course, for young and adventurous investors, that means people are looking to crypto.

And Bitcoin has managed to hold around the mid sixty thousands.

You may have heard about the Bitcoin halving -

An automatic event programmed into the Bitcoin algorithm, that cuts the new supply of Bitcoin in half... limiting the supply even more... and potentially driving the price of each individual Bitcoin higher.

Many crypto partisans are calling on this as a major catalyst for both Bitcoin and the cryptocurrency market as a whole.

More sober voices are saying that this is already priced in...

But there's an overall bullish sentiment on Bitcoin, especially as major institutions like Fidelity begin to offer Bitcoin index funds that you can buy from a regular brokerage account.

(As always we recommend doing your own research, and if you do decide to buy cryptocurrency - look into storing it in YOUR OWN digital wallet. Not your keys, not your coins.)

Of course Bitcoin has the same problem as a lot of non stock assets.

There's no yield.

You don't get any kind of quarterly or yearly dividend

You can hold Bitcoin, just like you hold a gold bar, but it doesn't spit off any kind of income. The only way to realize the value of your Bitcoin is to resell it, and then you don't have that Bitcoin any more.

But the good news about gold is that with the right gold investment, you don't have to put up with that!

You can enjoy exposure to gold - and essentially get paid to hold it.

And gold is the story in everyone's mouth right now.

For the last decade we've experienced an unprecedented bull market, and shockingly loose fiscal policy from the government. That's been good for a lot of investments...

But it wasn't good for gold.

Gold, which has held its value remarkably well over thousands of years of recorded history... didn't do much from 2010 to 2020....

But as you can see from that chart...

It's finally starting to climb, and to seriously climb in recent months.

One of the most remarkable facts about gold's enduring value is this:

In the era of Emperor Augustus (27 B.C. to 14 A.D.), a Roman centurion was paid 15,000 sestertii.

Given that one gold aureus equaled 1,000 sestertii and given there was eight grams of gold in an aureus, the pay comes to 38.58 ounces of gold. At current prices, this is about $54,000 per year.

That's almost exactly what a warrant officer in the US Army with four years of experience makes today.

So in nearly 2,000 years the amount of gold paid to a soldier for the empire has remained steady.

Unlike Bitcoin, the pitch for gold is that it will hold its value for literally centuries. There was another asset considered to be similarly safe and reliable...

US Treasury bonds.

But with soaring inflation and political instability...

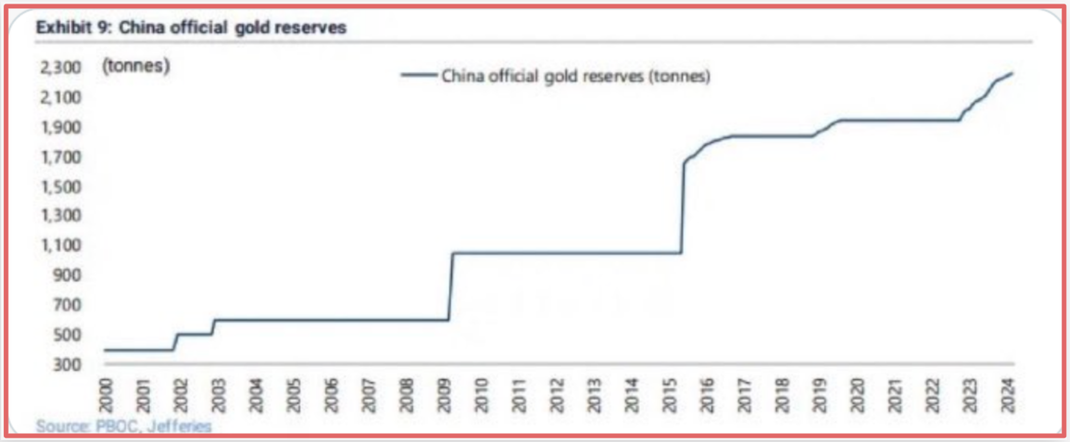
That might not be the case anymore. You can see in the chart how treasuries, which have historically moved very similar to gold, are finally starting to break the pattern.

So again - if you want a non stock asset...

A place to store your wealth that won't get hammered by volatility and inflation...

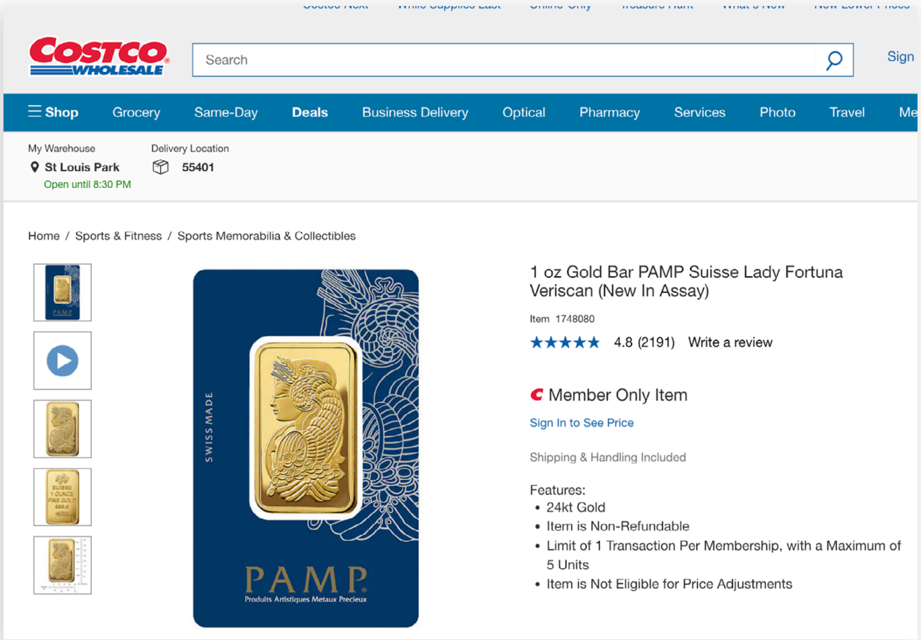
Well gold might be the only place left.

China and other countries certainly think so, as they have seriously ramped up their rate of gold acquisitions.



And one good option is certainly to buy gold itself.

Giant retailer Costco has been famously selling gold bars through its stores recently... and demand for that has been as much $200 million a month.



It's gotten to the point where they have to limit it to only one purchase per customer... with a maximum of 5 bars.

Of course at a spot price of around $2,395 per ounce... that's a nearly $12,000 transaction. Quite the Costco run.

Now similar to cryptocurrency, if you do want to own the underlying asset, there's a lot to be said for having physical control of it yourself.

And the beautiful thing about gold... is that it's beautiful.

There's something incredibly satisfying about feeling the weight of a solid gold bar or coin in your hand... and watching as it shines in the sun. Of course if you buy gold this way there are several dangers.

You need to ensure that it's real solid gold.

Buying from a large company like Costco is probably a safe bet, but if you buy from anywhere else you need to have a way to verify that what your getting is real gold.

Collectors of physical medals use devices like this one to measure whether or not the gold is solid, or contaminated :

But that device by itself costs $325.

Money well spent, if you might be buying tens or even hundreds of thousands of dollars worth of gold…

But it sure does complicate the transaction.

And then you have to be able to store the gold somewhere

You probably don't want to bury it like the classic novel Treasure Island… but you also probably don't want to draw too much attention to it… and you probably want to keep it locked in a safe.

You also may want to insure it

Many insurance companies will offer an insurance policy for precious metals and jewelry - one of our team members has a policy on his rare, vintage Rolex from USAA. But this obviously involves more cost and paperwork.

All that being said - holding physical gold in your own hands has a lot going for it… and it's worked as a store of value for thousand of years.

If you just want to own gold, we think holding physical bars in a locked safe is a more attractive option than holding "paper gold" through an investment account.

But…

That's not really an investment - it's a store of value.

So how can you make an actual investment in this soaring gold market? You might be thinking a gold mining stock… with their potential for serious growth…

But there's actually something we like even better than that.

Today's trade idea for the newsletter:

TRADE IDEA:

Franco-Nevada

FRANCO-NEVADA CORP

NYSE: FNV

PRICE AT PUBLICATION: $121.47

MARKET CAP: $23.8 BILLION

CURRENT DIVIDEND: 1.18%

Franco Nevada is what's called a gold royalty company.

You can think of that like a venture capital company, except instead of funding technology startups, they fund gold miners.

A gold royalty is a contract that gives the owner (a gold royalty company) the right to a percentage of gold production or revenue in exchange for an upfront payment.

Gold royalty companies use contracts as a way to finance mining companies in need of capital.

Gold royalty companies will also purchase pre-existing royalties as a way to build a diversified portfolio of royalty assets. Since royalties typically cover the life of a mine, gold royalty companies benefit from any excess mined gold and thus increase the amount of gold (or revenue) they receive from the mining company at no additional cost.

And obviously they will benefit significantly from the increase in gold spot price that we're seeing right now.

So instead of investing in a single gold mine, in a single country - a well-diversified gold royalty company like Franco Nevada gives you exposure to a wide range of different mines and different countries.

(That's a big deal because many gold mines have geopolitical risk because they're located in countries with risky political situations - which is also an opportunity for people with a big risk appetite)

Through its royalty contracts, Franco Nevada holds 430 different assets. Gold is chief among them, but they also enjoy exposure to other precious metals like silver and platinum, and even some oil and gas.

They have nearly 70,000 square kilometers of various mines, spread across the US, Canada, Latin America and Africa.

(You can see the full list on their website here.)

This plus their ultra-experienced leadership team, makes them an attractive buy amongst all the gold royalty companies out there.

The CEO, Paul Brink, has been with the company since their IPO in 2007 and is an industry lifer who oversaw the tremendous growth of the company since then.

Their senior VP of Geology, Chris Bell, is a PhD geologist and personally oversaw mine exploration in Africa.

Another senior VP, Amri Sinuhaji, previously worked for blue chip miners like Rio Tinto and Freeport and has particular expertise in silver mines.

Of course none of that matters if the performance isn't there - but it very much is:

Over the past ten years:

- The Gold ETF (GLD) has returned 56%.
- The VanEck Gold Miners ETF (GDX) has returned just 27% - including dividends.
- Franco-Nevada returned 174%, also including dividends.

So it's far out performed benchmarks like just buying and holding gold, or buying and holding miners.

Seeking Alpha analyst Leo Nellissen loves the stock writing:

> *[Franco Nevada] comes with considerable tailwinds for investors, including gold price exposure without the risks of operating a gold mine.*
>
> *Moreover, the company is not directly impacted by mining costs, including maintenance, which tends to rise along with inflation in key segments like energy (fuel) and labor.*
>
> *Looking at the numbers below, we see that the company had a 2023 adjusted EBITDA margin of more than 80%. Even better, $0.56 of every $1.00 in revenue turned into net income!*

Remarkably for the industry, Franco Nevada is debt free, with about $2.4 billion in available capital to deploy into various gold royalty contracts.

The frothy gold market hasn't quite caught up to this more unusual way of investing gold though.

Historical trends suggest that these gold values could conservatively push the stock 26% higher....

Which is why we like right now as an entry point for Franco Nevada.

So what did you think of this month's newsletter? Are you going to buy Franco Nevada stock? Are you going to load up on gold bars? Where will you keep them? Buried on a remote island or in a safe?

As always we love to hear from you at alex@wealthpin.com

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