

■ GOLD ACCOUNTS

Investors place some of their assets into gold mining stocks for various reasons.

- Gold can act as a hedge on other financial assets (particularly stocks and the dollar)
- Gold stocks can provide leverage to gold
- Junior stocks in particular provide opportunities for above-average shorter-term gains

All of this has a downside, of course. The leverage of gold stocks can work on the downside as well as the upside. The high potential of junior stocks also implies high risk.

In any event, gold stocks--even the most established and most conservative--tend to be volatile compared with other asset classes. Therefore, it is appropriate for investors to devote only a relatively small part of their overall assets to this sector, to the extent they are comfortable with volatility.

Gold Looks Attractive Now

At this time, we believe gold is near the beginning of a major move up. There is increased investment demand, both from institutions and central banks around the world, fueled by concern about the dollar and other currencies, as well as buying as a hedge against buying the broad stock markets. Central banks have become buyers again, and we expect ongoing buying in years to come, as emerging economies such as China, Russia, and India increase their gold reserves, in a bid to diversify out of the dollar.

Equally important, however, is the ongoing depreciation, not only of the U.S. dollar but of all paper currencies. As monetary authorities worldwide fight lethargic growth and high debt levels with unprecedented amounts of money creation and low interest rates, they devalue currencies. Eventually, this will drive up gold as investors sell currencies and seek haven in money that government can't readily create. Investors around the world are turning to gold for insurance and protection.

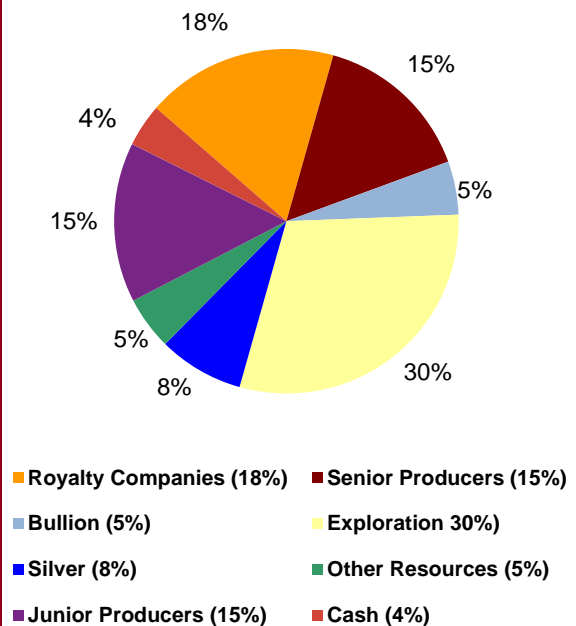
The period from mid-2011 through the end of 2015, was a mid-cycle correction, typical of long bull markets. During the great bull market of the 1970's, gold dropped in 1975-76 by 43%, before moving up eightfold before the end of the decade. We are not suggesting gold will have a move of similar magnitude, but we do believe that we have seen the lows, and have now entered the second major leg of a long bull market with much further to go. Typically, the beginning of such a move can see short moves followed by retracement, before a more sustained move up.

Gold is inexpensive relative to other financial assets (stocks and bonds) as well as many other assets, including the total money supply. And the gold stocks are selling close to decade-low valuations relative to bullion, and on many metrics, including price to reserves, to production, and to cash flow. Selectivity is critical in this sector, however.

Junior Companies Particularly Attractive

Though the major producing gold stocks represent good value relative to gold, and will likely move strongly as gold recovers, we like other groups within the gold sector. We like the royalty companies because of their low-risk business model. And there is more potential in many of the junior and

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exploration companies. As producers find it ever more difficult to replace the ounces they mine with new reserves, they are increasingly turning to acquiring deposits from junior producers and exploration companies. Such companies, if they make a discovery, stand to see stock prices go up by a multiple, and we are constantly looking for attractive candidates. But it is all the more important to be selective in such companies, since a lack of success can see stock prices tumble. These stocks can also be quite illiquid making selling difficult. We focus on companies with cash to sustain their exploration efforts, strong management, and a business model that minimizes cash expenditures (particularly the so-called prospect generators and royalty companies).

Conservative or Aggressive?

Gold accounts vary depending on an individual client's wish to be more aggressive or conservative in this sector. In addition, other circumstances and objectives can come into play (whether we manage money in other sectors for the client, the client's age and circumstances, etc.).

Larger accounts tend to have more juniors than smaller accounts--offering more opportunity for spectacular gains--since a larger account can tolerate the risk from any single investment more than can a smaller one. We also tend to trade more in larger accounts, often trading around a core holding.

What Is in the Gold Account?

In our gold accounts, we are open to the entire horizon of gold and precious-metal investments. These include mining companies active in every part of the world; exploration companies; diversified miners and silver companies; and even "gold substitutes"--companies that derive part of their income from gold-related activities but without direct involvement in mining (for example, refiners or mining contractors), as well as gold itself. Unless instructed otherwise, gold accounts may include silver and other precious metals, as well as exploration companies in a range of resources. To say we are open to these investments does not mean that every account will at all times have exposure to the entire spectrum. This will be determined by factors including the overall market climate as well as an individual client's circumstances.

Juniors and Seniors

Typically, we hold a core position in the top royalty companies; the best of the senior producers; a selection of better quality second-tier companies that may grow over the medium term; and some exploration or special situation companies. In addition, we aim to trade around our core holdings, adding to the best positions on any declines, and trimming on rallies. Given the volatility in this sector, we tend to be somewhat more active than in other account types. In a dedicated account (e.g., "gold" account) *unless otherwise instructed*, we tend to be more fully invested than in other accounts, raising significant amounts of cash only in exceptional circumstances. Currently, we are fully invested given low valuations, and have been increasing allocation to second-tier producers which we think will be among the winners in the period ahead.

Top Holdings

representative as of January 2018

Sprott Physical Gold	Midland Exploration
Franco-Nevada	Evrmin Resources
Royal Gold	B2 Gold
Agnico-Eagle	Wheaton Precious Metals
Osisko Gold	Altius Minerals

*Note: The composition of the portfolios will vary for individual clients and is subject to change at any time at the manager's full discretion.

For more information regarding managed accounts please contact us at:

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