Manager Commentary: On the Gold Market

Gold market continues to suffer on growth concerns, dollar strength

By: Joe Foster, Portfolio Manager

Fund Review

The International Investors Gold Fund's Class A shares returned -17.82% for the one-month period ending October 31, 2014 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index[1] (GDMNTR) returned -18.37% for the same period. The Fund is actively managed and invests mainly in gold-mining equities. Geologist Joe Foster has been part of Van Eck's gold investment team since 1996. The Fund is managed by a specialized investment team that conducts continuous on- and under-the-ground research to assess mining efficiencies and opportunities.

Average Annual Total Returns (%) as of October 31, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-17.82	-23.67	-11.07	3.32
Class A: Maximum 5.75% load	-22.51	-28.03	-12.12	2.72
GDMNTR Index	-18.37	-29.62	-15.27	-3.12

Average Annual Total Returns (%) as of September 30, 2014

	1 Mo^	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 1/1/56)	-20.10	-8.66	-7.91	5.61
Class A: Maximum 5.75% load	-24.72	-13.88	-8.99	4.99
GDMNTR Index	-19.78	-13.58	-12.87	-0.99

^Monthly returns are not annualized.

Expenses: Class A: Gross 1.46%; Net 1.45%. Expenses are capped contractually until 05/01/15 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

Please note that precious metals prices may swing sharply in response to cyclical economic conditions, political events or the monetary policies of various countries. Investors should be aware that recent market conditions resulting in high performance for the gold sector may not continue. The tables present past performance which is no guarantee of future results and which may be lower or higher than current performance. Returns reflect applicable fee waivers and/or expense reimbursements. Had the Fund incurred all expenses and fees, investment returns would have been reduced. Investment returns and Fund share values will fluctuate so that investor's shares, when redeemed, may be worth more or less than their original cost. Fund returns assume that dividends and capital gains distributions have been reinvested in the Fund at NAV. Index returns assume that dividends of the Index constituents in the Index have been reinvested.

Market Review

October brought wide swings in sentiment and volatility across many markets. Early in the month, concerns that sluggish growth in Asia and Europe might create a drag on the U.S. economy sent stocks tumbling while the U.S. dollar weakened. The gold price bounced higher after testing the critical $1,200 ($1,180 intraday) level on October 6, rising to $1,250 per ounce on October 21. The mood changed 180-degrees when U.S. economic reports showed strong gains in industrial production, leading indicators, and consumer confidence. Third quarter GDP growth beat expectations. At the October 28 Federal Open Market Committee (FOMC) meeting, the Federal Reserve (the "Fed") confirmed an end to quantitative easing (QE) and upgraded its assessment of the U.S. economy. Stocks rebounded from their mid-month lows and the DJIA®[2] went on to make new all-time highs after the Bank of Japan's October 31 plans to significantly expand its QE program. The U.S. dollar soared, sending the U.S. Dollar Index (DXY)[3] to new four-year highs. Giddy stock markets and the U.S. dollar strength sent gold spiraling downward. Other commodities have also been weak and oil prices have collapsed. Technical support at $1,180 did not hold and gold finished the month with a $34.68 (2.87%) loss at $1,173.48 per ounce.

Gold stocks reacted poorly to the early October bounce in the gold price. They subsequently fell hard when gold sold off into month-end. As a result, the NYSE Arca Gold Miners Index declined 18.37% and the Market Vectors Junior Gold Miners Index[4] dropped 25.54% for the month. Several companies reported disappointing third quarter results, however, this follows many quarters of good results and does not represent a return to the bad old days of over-promise/under deliver. Also, stocks with operations in Burkina Faso tanked when the president was forced out of office for attempting to change the constitution to enable him to stay in power after 27 years of rule. We spent a week in Burkina Faso in February and we are familiar with the political issues. We expect the gold mines to see minimal disruption to their business and a transition to a newly elected leader in 2015. Such incidents in West Africa typically can create headline risks and potential opportunities for investors.

Despite these current negative developments, we cannot adequately explain the dramatic underperformance gold shares have shown in September and October. It goes beyond anything that has happened fundamentally and beyond the normal leverage or beta that gold stocks have historically shown to gold. Much of the selling appears to be indiscriminant. We therefore can assume there must be funds selling to either cover redemptions, crystallize October year-end tax losses, stop losses, or speculatively short the gold stocks.

Please note that the information herein represents the opinion of the portfolio manager and these opinions may change at any time and from time to time.

Market Outlook

After peaking at $1,921 per ounce late in 2011, the gold price corrected in 2012. The correction turned into a cyclical bear market in 2013. The depth and duration of this bear market has gone beyond anything we imagined. It reminds us of two other past markets. Gold and gold shares fell a similar amount in the 1996 to 2000 bear market. The negative sentiment towards the sector was similar and the selling of gold from central banks then parallels the selling we have seen from the gold bullion exchange-traded products (ETP) in the current bear market. The current market is also similar to the 2008 crash, when each time we thought the market was finding a floor, another wave of selling would drop it to new lows. It seems despair has reached levels comparable with the depths of these previous bear markets. Perhaps there is another wave of selling to come and perhaps this is another year-end of tax-loss selling pressure. But as we look back on the tribulations the gold market has been through over the past two years, perhaps this is capitulation, and perhaps the bottom is near.

In our view, many investors use gold as an ultimate form of sound currency and store of value. Something that can retain value when all else fails. The U.S. is the world's dominant power economically, militarily, and monetarily. As such, the most potent driver of gold comes when confidence in the U.S. is shaken. The late nineties gold bear market ended because the U.S. was ground zero for the tech bust. Confidence waned and the U.S. dollar embarked on a secular bear market. The 2008 gold bear market ended because the U.S. was ground zero for the credit crisis. Once panic selling subsided, the U.S. dollar and gold rose in tandem as safe-havens, but the dollar's rise did not last and the gold bull market continued. Currently confidence is high for the U.S. There have been no foreign attacks on U.S. soil, the economy is gradually improving, and it is believed that the Fed will be able to normalize monetary policy with virtually little disruptions. As such, gold will probably continue to struggle until something happens to again shake investor confidence in the U.S.

On November 30, the Swiss will vote on a referendum that would require the Swiss National Bank (SNB) to hold at least 20% of its assets in physical gold. We don't expect the referendum to pass, but 100,000 signatures brought the issue to a vote and polls suggest a significant segment of the population could vote for it. In our view, a vote for this referendum symbolizes a vote against the misguided monetary policies that accompany the fiat currency system not just in Switzerland, but around the entire world. The SNB sold about half of its gold in the 2000 decade and now pegs its currency to the Euro by printing Francs to buy foreign currencies and securities. The Fed established this new and dangerous monetary order by printing a mind-numbing $4 trillion (roughly) since 2008 to buy mostly U.S. government debt and mortgage agency securities. On October 31, the Bank of Japan decided to expand its monetary base to ¥80 trillion to battle deflation. Meanwhile the European Central Bank is imposing negative rates on deposits and buying covered bonds as it struggles to find ways to match the largess of their Japanese and American counterparts while staying within European Union guidelines. These activities are similar to those that got the Weimar Republic in Germany and President Mugabe's Zimbabwe into trouble with hyperinflation and currency collapse.

In today's world, most, if not all, governments are seeking to weaken their currencies. The U.S. dollar is the tallest kid on a court where virtually no one can reach the basket. Leaders of Western civilization in our view are running their finances like banana republics, with policies that provide cheap financing that enables governments to pile on more and more debt at little cost. According to the International Center for Monetary and Banking Studies, global debt to GDP is nearly 220% and rising, up from 180% before the credit crisis. In Japan, QE was necessary in October to counter the deflationary drag the ill-timed April consumption tax had on its economy. Yet global stock markets partied over this new source of liquidity lubricating the system. It appears central banks are repeating the same mistake – pumping up credit and liquidity to boost asset prices in the hope it will somehow tow the economy along. It is a risky strategy that we believe will eventually come unraveled. It seems central bankers (outside of Germany) are oblivious to the risks of abandoning any aspect of sound currency policies. The SNB is adamantly against the gold referendum, unable to acknowledge any of its merits. The referendum is a draconian measure, but its supporters are likely driven out of desperation. Without changes to irresponsible monetary and fiscal policies, another financial calamity that might make the credit crisis look tame is an ongoing possibility.

We believe gold will ultimately benefit once the post crisis recovery has run its course and new cracks appear in the financial system. The timing is impossible to predict, but we doubt a fragile global economy can withstand the tightening the Fed desires in 2015.

Before gold can move higher it needs to establish a bottom. We believe there are three factors that could help stabilize the market:

- First, physical demand from Asia - There has been a seasonal pickup in demand from India and China, but so far it is not robust enough to stem the decline in prices.
- Second, an end to bullion ETP redemptions – Since September bullion ETPs have seen consistent redemptions at a moderate pace. Last year a similar trend persisted until year-end.
- Last, announcements of mine harvests, closures, or production cuts – In January, gold companies will begin to announce their new reserves and production plans based on lower gold prices. This year so far the industry geared itself to a $1,200 environment without any significant changes in production. Many mines lose money at lower gold prices, however, putting mines on care and maintenance or closure can be costly. The market is telling the industry it doesn't need as much gold. In January, we will begin to see if they are willing to bite the bullet and curtail production.

We have been telling clients all along that, while we didn't expect gold to fall below $1,200 per ounce, we nonetheless acknowledged the fragile sentiment in the current market. This caution is reflected in the companies in our portfolio, focused on low operating costs, strong balance sheets, and adequate cash flows. While the latest collapse in the current gold price has been disheartening, we are confident we have a portfolio that can weather this downturn from a fundamental position of strength.

Any indices listed are unmanaged indices and include the reinvestment of all dividends, but do not reflect the payment of transaction costs, advisory fees or expenses that are associated with an investment in the Fund. An index's performance is not illustrative of the Fund's performance. Indices are not securities in which investments can be made.

[1]NYSE Arca Gold Miners Index (GDMNTR) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. [2]The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq. [3]U.S. Dollar Index (DXY) indicates the general international value of the U.S. dollar. The DXY does this by averaging the exchange rates between the U.S. dollar and six major world currencies: Euro, Japanese yen, Pound sterling, Canadian dollar, Swedish kroner, and Swiss franc. [4]Market Vectors Junior Gold Miners Index (MVGDXJTR) is a rules-based, modified market capitalization-weighted, float-adjusted index comprised of a global universe of publicly traded small- and medium-capitalization companies that generate at least 50% of their revenues from gold and/or silver mining, hold real property that has the potential to produce at least 50% of the company's revenue from gold or silver mining when developed, or primarily invest in gold or silver.

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You can lose money by investing in the Fund. Any investment in the Fund should be part of an overall investment program, not a complete program. The Fund is subject to the risks associated with concentrating its assets in the gold industry, which can be significantly affected by international economic, monetary and political developments. The Fund's overall portfolio may decline in value due to developments specific to the gold industry. The Fund's investments in foreign securities involve risks related to adverse political and economic developments unique to a country or a region, currency fluctuations or controls, and the possibility of arbitrary action by foreign governments, including the takeover of property without adequate compensation or imposition of prohibitive taxation. The Fund is subject to risks associated with investments in debt securities, derivatives, commodity-linked instruments, illiquid securities, asset-backed securities, CMOs and small- or mid-cap companies. The Fund is also subject to inflation risk, short-sales risk, market risk, non-diversification risk, leverage risk, credit risk and counterparty risk. Please see the prospectus and summary prospectus for information on these as well as other risk considerations.

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