

## Manager Commentary: On the Gold Market

### Gold consolidates after two months of strong gains, lost 4.8% in September

By: Joe Foster, Portfolio Manager

#### Fund Review

The International Investors Gold Fund's Class A shares lost 9.88% for the one-month period ending September 30, 2013 (excluding sales charge), while the NYSE Arca Gold Miners Index<sup>2</sup> (GDM) lost 10.81% 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 access mining efficiencies and opportunities.

#### Average Annual Total Returns (%) as of September 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-9.88	-48.35	0.46	9.39
Class A: Maximum 5.75% load	-15.05	-51.32	-0.72	9.27
GDM Index	-10.81	-53.26	-5.76	--

#### Average Annual Total Returns (%) as of June 30, 2013

	1 Mo*	1 Yr	5 Yr	10 Yr
Class A: NAV (Inception 2/10/56)	-17.45	-40.77	-8.92	9.07
Class A: Maximum 5.75% load	-22.20	-44.17	-10.00	8.42
GDM Index	-17.07	-44.39	-11.86	--

\*Monthly returns are not annualized.

**Expenses: Class A: Gross 1.29%; Net 1.29%.** Expenses are capped contractually until 05/01/14 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

It is unfortunate that we must spend so much time contemplating the next moves of the Federal Reserve Bank (the "Fed"), Bank of Japan (BoJ), or European Central Bank (ECB) before making investment decisions. We look forward to a day when the decisions of a few government bureaucrats matters little, while economic and business fundamentals matter most. Comments from Fed officials since the July Federal Open Market Committee (FOMC) meeting had convinced most market watchers that the Fed would begin to decrease or "taper" its \$85 billion monthly bond purchases by \$10 billion. On September 18, the Fed did a u-turn when it announced it would refrain from tapering, saying it needs more evidence of economic improvement. Fed Chairman Bernanke also said they may wait until unemployment is considerably below 6.5% before raising rates. As a result, on September 18, gold advanced \$54, the S&P 500<sup>1</sup> made new all-time highs, and bonds rallied. The very next day gold retreated as Fed officials began to again discuss tapering, convincing markets that it might now begin by year end. Following two months of strong gains, gold consolidated in September, falling \$66.21 (4.8%) to end the month at \$1328.94 per ounce. Gold stocks fell with gold, as the NYSE Arca Gold Miners Index<sup>2</sup> and Market Vectors Junior Gold Miners Index<sup>3</sup> declined 10.7% and 15.0%, respectively.

We attended the Denver Gold Forum and participated in the Precious Metals Summit in Colorado during September. While the gold price is in the dumps, companies are proactively addressing the issues that face the industry. Gold companies know they are under pressure to meet production and cost guidance. All of the companies we met with maintained their guidance and some expect better second-half results. The majors continue to assess head count and find ways to save on capital and operating costs. Production will be driven by returns, not growth. Long-term mine plans are being made to access higher quality/higher return ounces. As evidence of this, we expect to see a drop in reserves at year end as low-quality and uneconomic ounces are removed from mine plans. High-cost mines will likely have shorter lives and some may shut down if they cannot generate sufficient cash flow. Global mine production could go into decline next year. These steps to enhance profits should be received positively by the market as new plans are revealed in January 2014.

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.

Mid-tier and junior producers are generally leaner and less bureaucratic than the majors. Many have favorable cost structures in place, so their reaction to low prices has been more of a business-as-usual. Many mid-tiers also have growth pipelines that have been stretched further into the future to align their capital needs to lower cash flows.

In the coming year there are a number of junior developers that will need to finance projects. Their options are limited, since most find raising equity is too dilutive at current low valuations. They will have to decide to either take on some form of debt, sell the company, or go dormant until conditions improve. This may bring more M&A activity than we have seen the last couple of years.

### Market Outlook

Despite gold's September loss, we believe there were some very constructive developments for gold in the Fed's actions. In addition to the confusion and volatility the Fed has fostered, this "taper-off" decision also indicates potential signs of stress for the economy and financial system on several levels. Apparently, the Fed believes the economy remains so fragile that it cannot withstand a relatively miniscule taper of \$10 billion, even though it would have continued buying \$75 billion per month of bonds, and interest rate targets remain far below equilibrium. Also, it is not clear whether there are enough buyers of U.S. Treasury and mortgage-backed securities to replace the Fed's massive presence when it finally decides to taper. Probably most disturbing to the Fed, in our opinion, is the sense that markets have inextricably linked tapering to interest rates. Rates on 5-year Treasuries tripled to 1.85% from May to September as the market became convinced the Fed would begin tapering. Then, rates collapsed on the September 18 "taper-off" announcement. Rising rates would significantly diminish the value of over \$3 trillion in interest-bearing securities the Fed has accumulated through quantitative easing. In addition, amid failed budget talks and pending debt limits, most people are aware of the fact that the greatest economic power in the history of mankind is financially dysfunctional. If it were run as a business it would be technically insolvent, bankrupt. Its \$17 trillion of debt keeps growing. Should interest on that debt rise to normal historical levels of around 5%, the cost would be roughly \$850 billion annually. For comparison, the 2013 U.S. Defense budget is \$672 billion, Social Security \$882 billion, and the Department of Health and Human Services (which includes Medicare and Medicaid) \$940 billion. The Fed's unconventional policies are not creating the desired GDP growth and unwinding these policies risk escalating rates that would be too costly to the U.S. Treasury. We do not see any long-term solutions that do not create financial risks that favor gold as a safe haven. Unsavory options include printing money to pay for deficits, gutting social programs, or dramatically increasing taxes. Historically, the option of choice for governments in similar difficult situations has been to print money in an attempt to inflate the debt away. So far that has also been the Fed's choice (quantitative easing), and it seems the Chairman believes that because these policies have not worked well enough, they must continue.

The world has survived fiscal cliffs, debt limits, massive quantitative easing, negative real rates, Eurozone bailouts, and radical Japanese monetary policies. Markets have become conditioned to believe more of the same poses no threat. In our opinion, because of this complacency, it is clear to us that gold needs a new catalyst to stimulate investment demand. Inflation could become such a catalyst. Two key ingredients of general price inflation are tight labor (rising wages) and too much money pumping through the system (from credit and/or printing). Unemployment has fallen to 7.3% largely due to those who have dropped out of the labor force. Most states allow people without work to collect benefits that are above a minimum wage salary. Since the crisis, the number of people on disability has skyrocketed, as has those on food stamps. The incentives to remain on government assistance are currently greater than ever. In addition, many college graduates lack the skills the corporate sector needs. Economists are beginning to believe, because of these trends, there has been a structural decline in employment and that full employment is now above the 5% unemployment threshold of the past.

Plenty of money has been pumped into the system since the credit crisis. Kansas City Fed President Esther George dissented from the last FOMC meeting saying: "The continued high level of monetary accommodation increases the risks of future economic and financial imbalances and, over time, could cause an increase in long-term inflation expectations." We believe there has been no inflation primarily because the velocity of money<sup>4</sup> remains at historic lows. In other words, money is not being properly circulated in the system. It is sitting in banks and on corporate balance sheets. Meanwhile consumers have been deleveraging, reducing their debt load. That could be about to change as consumer credit has been rising for over a year, reaching a new all-time high in August. Household income has stabilized and debt service as a proportion of disposable income has dropped to its lowest level in over 20 years. Velocity begins with consumers borrowing and spending. Perhaps, with the help of cheap energy and tighter labor markets, conditions are favorable enough to mark the end of the post crisis credit contraction. That in itself is a good thing, however, when backed by the mountains of money that continue to be created out of thin air, it becomes dangerous and potentially inflationary if the velocity of money should accelerate to normal levels.

Few are currently thinking about inflation, however we felt compelled to raise a flag. The Fed has indicated many times it would like to see inflation of upwards of 2.5%. Once the Fed gets what it wants, will it be able to put on the brakes? Probably not. In addition, the gold market would probably start pricing in inflationary pressures long before they become obvious. Despite the recent persistent weakness in the gold price, we continue to believe the secular bull market is not over. Further financial stress and ultimately inflation are drivers that could take gold much higher.

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.

<sup>1</sup>S&P® 500 Index, calculated with dividends reinvested, consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors. <sup>2</sup>NYSE Arca Gold Miners Index (GDM) is a modified market capitalization-weighted index comprised of publicly traded companies involved primarily in the mining for gold. <sup>3</sup>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. <sup>4</sup>Velocity of money is the average frequency with which a unit of money is spent on new goods and services produced domestically in a specific period of time.

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. Not intended to be a forecast of future events, a guarantee of future results or investment advice. Historical performance is not indicative of future results; current data may differ from data quoted. Current market conditions may not continue. Non-Van Eck Global proprietary information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission of Van Eck Global. ©2013 Van Eck Global.

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.

Please call 800.826.2333 or visit vaneck.com for performance information current to the most recent month end and for a free prospectus and summary prospectus. An investor should consider the Fund's investment objective, risks, and charges and expenses carefully before investing. The prospectus and summary prospectus contain this as well as other information. Please read them carefully before investing.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

vaneck.com | 800.826.2333

Van Eck Securities Corporation, Distributor  
335 Madison Avenue | New York, NY 10017

