

# Gold Supported By Cracks in Market Confidence

By Joe Foster, Portfolio Manager

## VanEck International Investors Gold Fund

INIVX / IIGCX / INIIX / INIYX

### Fund Review

The International Investors Gold Fund's Class A shares returned 15.6% for the one-month period ending January 31, 2017 (excluding sales charge), while the NYSE Arca Gold Miners Net Total Return Index (GDMNTR)<sup>1</sup> returned 13.7% for the same period. The Fund is actively managed and invests mainly in gold-mining equities.

#### Average Annual Total Returns (%) as of January 31, 2017

|                                  | 1 Mo <sup>†</sup> | 1 Yr  | 5 Yr   | 10 Yr |
|----------------------------------|-------------------|-------|--------|-------|
| Class A: NAV (Inception 2/10/56) | 15.55             | 82.06 | -12.49 | 0.13  |
| Class A: Maximum 5.75% load      | 8.85              | 71.52 | -13.52 | -0.46 |
| GDMNTR Index                     | 13.69             | 69.79 | -14.79 | -3.84 |

#### Average Annual Total Returns (%) as of December 31, 2016

|                                  | 1 Mo <sup>†</sup> | 1 Yr  | 5 Yr   | 10 Yr |
|----------------------------------|-------------------|-------|--------|-------|
| Class A: NAV (Inception 2/10/56) | 0.69              | 53.12 | -12.93 | -1.29 |
| Class A: Maximum 5.75% load      | -5.11             | 44.27 | -13.95 | -1.88 |
| GDMNTR Index                     | 1.11              | 54.35 | -15.40 | -5.14 |

<sup>†</sup>Monthly returns are not annualized. 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.

Geologist Joe Foster has been part of VanEck'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.

### Market Review

Since the financial crisis of 2008-2009, markets have been obsessed with what the Federal Reserve does or doesn't say or do. This past January, the Fed was relatively quiet, giving no indications of an early year rate increase. This silence has forced the markets to find a second obsession: The Trump Administration. It appears as if there will be at least four more years of obsessing over President Trump's actions and statements (and perhaps even more importantly, his tweets). The good news for gold is that markets are beginning to reflect reality following the irrational euphoria that occurred after the November U.S. presidential election.

The risks of a Trump presidency, which we have been highlighting since the election, are coming into clearer focus. President Trump broke with tradition (again) by indicating that a strong U.S. dollar is not necessarily in the best interest

Expenses: Class A: Gross 1.43%; Net 1.43%. Expenses are capped contractually until 05/01/17 at 1.45% for Class A. Caps exclude certain expenses, such as interest.

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 from index constituents have been reinvested.

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of the United States. His chief trading advisor and incoming U.S. Treasury Secretary Steven Mnuchin also made comments that were interpreted as being unsupportive of the dollar. Controversial executive orders and anti-trade maneuvering have damaged confidence and contributed to further dollar weakness. As a result, gold and gold shares have had an encouraging start to the year, bouncing off oversold yearend levels and benefitting from downward moves in the U.S. dollar. Gold gained \$58.38 (5.1%) to end January the month at \$1,210.65 per ounce. The NYSE Arca Gold Miners Index (GDMNTR) gained 13.7% while the MVIS™ Global Junior Gold Miners Index (MVGDXJTR)<sup>2</sup> advanced 17.9%.

### Market Outlook

Markets are generally fairly good at pricing in demand trends, earnings expectations, technology innovations, and many other things. However, one thing markets have great difficulty putting a price on is uncertainty. Just two weeks in, and it appears that Trump’s administration will be unconventional, controversial, and unpredictable. If we could measure the level of market uncertainty over the next four years, it would likely be off the charts. Many people in the U.S. and internationally are genuinely fearful of the future. With interest rates still at microscopic levels and U.S. stocks at all-time highs, gold, in our view, is an obvious investment alternative as a hedge against the potential for uncertain outcomes that may easily damage other asset classes.

Given our gold investing expertise, we are often asked about the nature of the gold market, as some investors are perplexed by the volumes traded. Bloomberg recently released an article in which the CPM Group, a research firm specializing in precious and industrial metals, quantified the global gold market. In 2015, 310,358 tonnes (10 billion ounces) of gold were traded globally. The London over-the-counter (OTC) market amounted to 144,000 tonnes, or 46.3%, of the gold traded, while the New York futures market accounted for 130,350 tonnes or 42.0%. These numbers stand in stark contrast to the physical demand of 4,124 tonnes estimated by Reuters GFMS in 2015. The magnitude of the trading stands out further when considering that there have been approximately 170,000 tonnes of gold mined since the beginning of time.

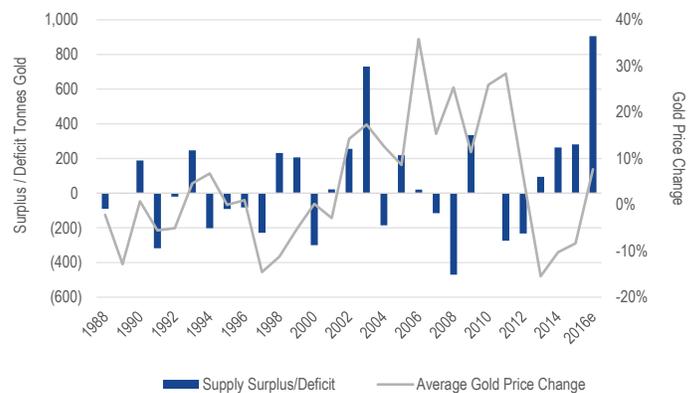
These markets enable a huge portion of gold to trade without moving a single ounce. Participants in the futures market understand and expect this, so trades are only rarely settled with physical gold. The OTC market is a physical market and much of the gold taken for

delivery globally is settled through London. However, an OTC ounce can change hands many times in a day, so only a fraction of the gold traded in London is actually moved to a new owner. Thus, the overwhelming volume of gold is traded in paper transactions, not physical metal.

Although there are many people who believe gold is a useless relic, the millions who invest in gold believe differently. To make money in this sector, it is crucial to understand the behavior of dedicated gold investors. The most important thing to recognize is that gold (and its paper proxies) is used as a financial asset, not a commodity. It is a safe haven<sup>3</sup> store of wealth with no liabilities and has been used as such throughout human history. Therefore, the gold price is not driven by the same supply/demand fundamentals as soybeans, copper, or crude, for example.

The chart shows a traditional commodity price analysis with surpluses and deficits in the physical gold market since 1988. Notice there are many years when the gold price rose when there was a physical surplus. Likewise, there are also years when the price fell and there was a deficit. This doesn’t make economic sense, which makes a physical supply/demand analysis an unreliable price indicator. We believe there are three possible reasons for this: 1) the global physical market is difficult to measure accurately; 2) the huge above ground stores of gold; and 3) investment drivers in the paper market can overwhelm the physical market.

Gold Supply vs. Price Change



Source: Reuters GFMS; Bloomberg; VanEck. Data as of December 31, 2016. Past performance is no guarantee of future results.

As 88% of global trading volume occurs in New York and London, we believe the dominant driver of gold prices is Western investment demand. Western investors and others use gold to monetize their views on currencies, interest rates, geopolitical risk, systemic financial risk, central bank policies, inflation, deflation, and tail risk.<sup>4</sup> These are the primary factors that help drive the gold price. Technicals are also important, as many investors make decisions based on chart patterns. Prices can be volatile, and this volatility is another aspect that tends to attract certain investors. Commercial players, such as jewelers and producers, use these markets to trade metal or hedge, although we suspect this to be a relatively minor driver compared with investment demand.

According to the CPM Group, China and India are the two largest gold consumers with 1,803 tonnes of combined physical demand in 2015. While this is 44% of physical metal consumption, these two countries account for just 7.9% (24,518 tonnes) of global gold transactions. India has no modern gold exchanges and the Shanghai Gold Exchange and the emerging Chinese futures market have a very long way to go to rival the Western trading hubs. As such, even though Asia accounts for the majority of physical demand, this region tends to be a secondary driver of gold prices. The local markets in India and China typically trade

at a premium or discount to Western markets depending on local demand levels. Asian investors are sensitive to rising prices, as demand tends to increase during periods of price weakness. Asian buying typically helps establish a floor for gold prices, while Western investment demand is usually responsible for driving it higher.

We are also asked, because of the unusual structure of the gold market, if the gold market is manipulated. We would not be surprised to find that the gold market has been manipulated, but to a lesser extent than other markets. For example, currency markets are often manipulated by governments. Bond markets have been manipulated by the central banks since the financial crisis. Some governments, banks, and hedge funds may occasionally derive some benefit from lower gold prices. We periodically have seen curious price movements caused by large paper market orders at times of thin trading. This has happened especially in weak markets. It would be naïve, however, to dismiss the gold market as “rigged” based on this. While the magnitude of the paper market is remarkable, it is still driven by gold fundamentals. We believe any attempts at manipulation, if successful, can only influence prices over short periods. The gold market is too large for any manipulation to have a lasting effect.

All company weightings, if mentioned, are as of January 31, 2017 or unless otherwise noted.

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>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. <sup>2</sup>MVIS™ Global 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. <sup>3</sup>Safe haven is an investment that is expected to retain its value or even increase its value in times of market turbulence. <sup>4</sup>Tail risk is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution.

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About VanEck International Investors Gold Fund: 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, 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.

Diversification does not assure a profit or protect against loss.

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