LBMA WEBINARS

18 June 2020

Quant Investing: The Power of Gold Royalty Companies

Speakers:

Tayler Birch, Events Coordinator, LBMA/Speaker 1
Ruth Crowell, Chief Executive, LBMA/Speaker 2
Frank Holmes, CEO & CIO, U.S. Global Investors/Speaker 3

Summary:

There are numerous ways to invest in gold – coins, bars, mining stocks. In our latest webinar, hosted by Ruth Crowell, LBMA CEO, we hear from Frank Holmes, CEO and Chief Investment Officer of U.S. Global Investors, who discusses the different ways to “supercharge” gold positions – using royalty and streaming companies.

Speaker 1:

Good afternoon and welcome to today's live LBMA webinar. Please welcome Ruth Crowell, CEO at LBMA as she hosts today's speaker, Frank Holmes, CEO and CIO at U.S. Global Investors. As a reminder, if you have any questions throughout this webinar, please feel free to write them into the questions tab and our panellists will try to answer them at the end, should there be time. And, if not, we will follow up with you afterwards. So, with that, I will turn to Ruth to introduce Frank.

Speaker 2:

Hi, thank you so much, Tayler. Thanks to everybody who's joined us this evening, this afternoon, or this morning and a big thank you to Frank Holmes for being here today to talk to us in terms of quant investing. I think Frank is really a man who needs no introduction, and if you're not following him already on US Global Investors, you should be. He was one of our best speakers at the LBMA Conference and given that we're all commiserating a little bit, that we don't get to meet in person, we thought we would help bring the LBMA conference to you, with bringing back some of the best of the best. So, I think with no further ado, I will turn it over to Frank to enlighten us with his remarks. Frank, Thanks again.

Speaker 3:

Thank you, Ruth. And it is a new world and we're all being zoomed in and out. It’s a new way and I’ll share with your audience some other interesting parts as we go through this presentation. But the quant world has changed and it is evolving much faster, that we have to ask the questions, and which we take for granted, such as the ability for AI to show up for iPhones to do facial recognition. And now the latest is cadence recognition – that how you walk is your own DNA and everyone has a different walk. And now the data collection is this. You could be just dressed all in dark and can’t see your face, but they'd have a high probability and know who it is. All of this, how does it impact you and the gold world to make investments and also to sell gold? How do you communicate? How Alexa can turn around and be a game changer and where do you position your story and information about the world of gold? So, hopefully, you find this entertaining and I'll try to bounce back and forth throughout this presentation, some of my sort of experiences might pass as knowledge. So, let's start off with the first video clip. So, what's important about this is, it started off as a bit of a funny tweet/commercial and it was regarding the influencer – and the greatest influencer in the capital markets today is President Trump. And when he makes a comment that's positive or negative, it can impact an asset class or currency. And, so, the world of bots had the ability and algorithms that are always out there in the internet, looking for information. And these little bots are able to take words and do a sentiment analysis. Is it positive, is it neutral or is it negative? And then on a historical basis, how often has this information impacted the market? So, you can see here is 17.9% of a second, that this information, that words are positive or negative and they immediately go short. They go short – Sony, Boeing, Mexican Peso – it doesn't matter what the asset class is, that a lot of short-term price volatility comes off sentiment analysis. And what this company did was sales services, is that they had to donate the money to save a puppy, and you'll be able to come back and re-watch it. I highly recommend you download, it's only a minute and a half, but it's very informative and it's very insightful of how sentiment analysis, your narrative and your words impact – next slide please – impact capital markets.

So, sentiment analysis and impact on trading, and friends of mine that have an $8 billion quant set up – and they leveraged this – they have a very high sharp ratio and they have something like 36 PhDs, and they have six pods and six different strategies. And each of those pods have six PhDs that are looking for data and, sort of, non-traditional sets of data to be able to go ahead and leverage. And a lot of their investments will go from three minutes to maximum three days. And today is even a greater influencer than when I spoke in Barcelona to the audience of the LBMA, in explaining that, at that point, I think it was something like 60% of all trading was done by quants. Today, it is pushing something like 90%. And it's important to recognize the influencing that they're having, and it's not just on trading – next slide, please – it also is very significant how it's impacting selling a product or a service. So, these sentiments, these word choices are so important, and they impact, in particular, gold stocks. And there was regressional work done years ago by Barry Cooper at CIBC, that said if these words were in a press release, that the stock could fall 27% over a two-week period. So by the time this information is downloaded and you ran it through your model of this particular Kinross, or it doesn't matter, Barrick, whatever the company was, then you would all of a sudden say, 'Well, that means I should be buying more or selling'. Today, that information is downloaded and processed within one minute and immediately that stock, because they know that stock could fall 27% over two weeks, now occurs in two hours. And a lot of gold analysts – and gold equity analysts – are just surprised. What took place? What happened? How – what did I miss? Because price volatility impacts their decision making. So, these trends are looking at quickly is a trinomial model here. Is it good? Is it neutral? Is it bad? And what words? And then they also know what percentage of the impact and how long? Next please. So, these sentiment tools drive the price action of gold and gold equities, and they're driving it faster, bigger and in a broader audience. And what's interesting, as we've all had to wrestle with staying at home – the coronavirus, the pandemic – is the significance of zoom. The market cap of zoom soared greater than the market cap of all the airlines in America. And this whole medium, and how the sentiment was impacting – and how sentiment is impacting companies like Amazon – actually prosper. Amazon hired a hundred thousand people. Amazon uses nothing but tools, for there are quant tools looking for the sentiment and the purchasing/buying of customers and all of a sudden pivoting. This operative word is how fast can you pivot with good data? And how long and sustainable is that information? And then, so they used to call it a DK rate. I used to hear DK rate first time with uranium. How long does it last? That it can be radioactive. And the DK rate, well, it is showing up in information flow, in picking stock or selling products. Next please.

So, the stock-picking from space using satellites, and this has evolved dramatically and substantially over the past three years. Three years ago, it was a big part of – I was looking at shipping and parking lots. In particular, people were shorting Sears because they could see from GPU that the number of people showing up and counting the cars from the largest Sears stores across the country, to go short the stock. Now, with the coronavirus, it's had another big impact, following this data, because no one's showing up at those Sears stores and it's pretty well gone, but other stores and other malls. And, so, using this data, it's showing up in different places, in different ways. And a classic would be the most recent TSA in the U.S., tracking how many people they follow every day. How many people did they clear to be able to follow fly an airplane? This data set just started coming out in March, and it was very important, all of a sudden to see the airline stocks take off. Previously, you would just look at Google trends. And like, you look at Google trends for – and this is very predictive – if there's an increase in the number of people looking up the price of gold, a week later it shows up in stronger price actions for gold. If it drops in the number of people just looking for the price, then, a week later the price starts to sag. This has been well known of using Google trends. But now there's more and more information coming up in the data sets and spaces, and still will continue to be an important part of tracking and helping investors get that first mover advantage. We also see this on tracking private airplanes. So, with the coronavirus taking place and flights just cancelling everywhere in the world, it was more important than ever to be tracking who is flying privately – which CEOs – and there's been a huge breakthrough in the past three years of using information like this to make better informed decisions. Next please.

So, this is another visual. And there's many apps, by the way today, that allow you to detect if someone is lying. Now, what's important is that the accuracy of this is not even close to the accuracy now of facial recognition – of voice recognition. But what it is able to do, is it's improved from having a 25% to a 30% to – it's now pushing a 40% accuracy – that that person's message has something wrong with it. And it's the best way to train a young analyst. And, so, it doesn't matter in any one that's on an important deal, and it could be moving a block of gold or trying a new distribution system, that person makes these commitments to you, these promises. It's so important to be listening to this because there could be word choices or there could be other patterns, but the lie detectors, basically, when you ask questions, it's able to determine not just the – more importance, the word choice – but the inflection of your voice, the pitch of your voice, how the changes etc. is usually reflected. Now, what happens with these tools? You can go on Android and download it and you can do it on your iPhone. What is important is that the mass adoption doesn't really take place until you get over 90% accuracy. And that was the same thing with voice recognition, facial recognition and now there's cadence recognition. We're going to continue to be able to have these patterns. And I thought it was really quite fascinating for me, Tencent – which is probably the biggest tech giant in China – was able to take a picture of a baby and use that picture to forecast what a child would look like if they were 16 to 18 years old, and the accuracy was improving dramatically. From an infant's picture. Now that really shocked me. Now, why was Tencent doing this? Well, there's been a lot of kidnappings of baby boys in China, and they're predominately sold into the rural area because of a drop off in the number of boys and they need boys – young men – to all of a sudden work these farms. And, so, they started putting up cameras throughout China as speed trains and the airports evolve, and they've been able to identify someone walking through an airport and ask them questions and find out that that child was adopted, and these are the rightful parents. And they've been able to return 500 kids to their rightful parents. I mean, this is another level of – you could almost feel – espionage. When you walk in the public arena, being able to track faces. Now I'm sure with all these masks, they're not going to be able to do that today, but this level of recognition is showing up for people making investment decisions, trying to track airplanes, where they're moving, and next they'll be able to try to use facial recognition to track executives, or – what they like to call it on the internet is – people who are influencers. Next please. Next slide, please.

So, to sell gold in Alexa, you need to change your strategy. And there's lots of articles on the internet for you to go to, to read, to understand how they can find out, and Amazon is the best at that. If everyone's ordering a hot product, then all of a sudden, they just try to make it themselves. And their delivery system I thought was most interesting for just-in-time food throughout the U.S. and, in particular, frozen food and how they delivered it to us during the lockdown and the same thing as products that they're moving themselves. And, so, you will be able to buy that data and to be able to place your ads. We know now that the influence of tweeting, we all know that's had a big impact on President Trump being able to maintain a huge audience of followers because of this tweeting and the whole strategy of tweeting. Well, it has now come out to me from talking to people that placed tweets only during the stock market hours, because you can basically do it in segments when the stock market is open, and then you tweet information about your product. It could be the world of gold, it could be a stock, it could be shorts – that are shorting a stock, or shorting gold, et cetera – and those tweets get read more often and they become an influence. So, how do you find out everyone in the world that is tracking LBMA? Well, you can get a tweet. And I bought those rolling through the worldwide internet and it starts finding anyone that talks about gold or talks about LBMA, and then all of a sudden, they can go ahead and place ads there. And, therefore, you can have a much higher response rate, and it's not as expensive as you'd think. But most important is that you have to study of, and understand how you can use, all these different collection data sets to have a more significant impact selling a product or information on a conference like this – a presentation – if you want to make it worldwide. Next please. So, facial recognition, which we now take for granted. I remember in the beginning with using your finger with Bloomberg, and you had to have – your finger was the only way to scan, and now it's evolved. It's much more accurate, so they use facial recognition, voice recognition, other biometric data, and cadence tracking was the one that I thought was most fascinating of how that's being used. And it will be used in particular at airports and train stations, especially if you have a mask on, or you have a veil on – how can they track you with facial recognition? It's not going to work. Next please. So, data driven investment decisions – identifying patterns that reduce risk – very, very important, and natural language processing. You can Google it – it's quite often as NLP – and, really, it's the backbone of Google and what the quant world has been able to do is take NLP and put it on steroids, and much greater than just Google trends. And their services like, which we use, for sending out press releases and tracking all of the – any article or recommendations in a book. Our company, or myself, we use Meltwater and Meltwater is much more efficient, much more effective for its cost and being able to share information, gather information, and knowing what's influencing etc. And then you have Social Sentiment Trading and you have the Twitter and Google trends, and this is going to become very important and more significant for selling a product such as gold. Next please.

So, quants use these Google trends, as I mentioned earlier, as sentiment tools and searching, say, gold investing. It could be a word, just looking up the price of gold. And this is a big part in Bitcoin, of being able to track the sentiment of how many people are looking up Bitcoin prices. As it was soaring to 19,000 it was – you could see this real defined pattern by looking back – and when you do this regressional studies that says, 'This is a pattern that's good for seven days', it's very significant because I've noticed in the airline industry, how analysts now are tracking people looking up for holidays, looking up booking flights, open tables issues, just to see how many people are booking now – as a tool, you can track the people coming out of the countries, coming out of the coronavirus lockdown. Then all of a sudden you can see that pattern showing up at open table bookings, and you can chart this, and you could do standard deviation moves, or volatility moves on that data set collection. And that is what quants would use to trade restroom stocks – restaurant stocks, sorry. And it's that ability to take a look at where things are going to have that advantage, because previously our advantage has only been quarterly. We have to get the financials once a quarter. They don't always come out on the drop date of March 31st. You have days to file from that date and that information that has to get put into an analysis to compare for the past five years. The quant world can do high frequency research and that high frequency research allows you to go back and look for patterns within minutes. Next please. Central Banks continue to gobble up gold. And we see this as ongoing. This is just a classic example that this is an important part of that demand factor. As we see number increasing of countries using zero funding, negative real interest rates. And I believe that the G20 finance ministers – in particular, the G7 – are a cartel, that focus just like OPEC. And before the competitiveness nature between these different countries is much more synchronized. The finance ministers all have their G20 finance minister meetings, the central bankers of these countries all have – and since 2009, it's been synchronized taxation and regulation. And the ability to move money between countries was much greater before the stopping of people to physically be able to move. And before the coronavirus, visas to move and travel were actually slower than what was taking place with the regulatory world of slowing down the flow of funds and money. And we had AML costs go up dramatically, KYC laws go up dramatically. And that was the first part of the difficulty to open bank accounts in different jurisdictions around the world was the first real mechanism, if you do quant analysis of seeing, this was the slowdown of money being flowed between countries and allowing countries to try to get control of the situation. And we're seeing now in Turkey, trying to set more controls of being able to move money out of the country and I think it's going to continue. Next please.

So, this is one of my favourites because, when you look at central banks – trust the power of gold – they'll rank by the largest gold holdings. The U.S. continues not only to have the largest gold holdings, but also the most powerful military in the world. And that's very important. Two pillars of a strong global footprint and the ability to become an influencer. But what's interesting is you see where India is ranked? Now, India is ranked number seven… when it comes to the government. But when it comes to Indian women – and the dowry and the process of passing on wealth between the families to protect against bad policies, government, and fiscal and monetary policies – Indian women carry 22,000 tonnes of gold jewellery. And what's important is that it's six times greater than what Fort Knox has for gold in America, and so what I think is important here is recognizing, what we have seen, rising GDP per capita and purchasing power parity has a big influence on many parts of the global economy, in particular, the love trade and the consumption of gold. Next please. So, there are two drivers in my world that drive the price of gold. There is the fear trade and the love trade. The love trade is supposedly 60%. And it has to do with jewellery in particular, that's given, or gold bricks, in love for birthdays or the sort of Zodiac gifts giving. Or if you have in China, so that goes back to shamanism, you have the animal of the year and it recycles if you were born in the year of the bull or the tiger. And you can see, and when you fly to Asia that year, all of a sudden, golden tigers in jewellery stores, 24 carat golden rams. And so, I think, it's really fascinating. So, how does that influence the price of gold? I want to walk you through that. But what captures most investors is the fear trade. And I'm going to highlight the differences in what you should be looking at. Next please. So, macro forces – and it's so important to look at this love trade. Chindia, affectionately known for China and India, are 40% of the world's population, and the rising GDP per capita and purchasing power parity from 30 years ago has had a profound impact on gold demand and consumption in these most populated countries. And it's still today, they are a major and significant influencer because of just consumption. The percentage of the consuming economy compared to Europe and the U.S., I think, is something like 75% of our economy in the U.S., and Europe is over 70%. That is not so when we look at Chindia. It's substantially less, but it's growing at a much faster clip. Next please. So, this is to give you the significance of looking at overall GDP and U.S. still is the largest GDP in absolute terms, but China has come from nowhere in the past 20 years, and in particular the past 30, which you can see sort of increasing where it surpassed the UK, then surpassed Germany, then Japan and now it's ranked number two, but more important to you is purchasing power parity. And we used to always see *The Economist* come out with the cost of Big Mac's around the world and the difference. When we look at the price of gold and gold consumption, GDP purchasing power parity, as it's been rising in China and India, you're seeing a greater consumption of gold because of the cultural affinities and that great love trade for the importance of gold as an asset class. Next please. So we go back, and Pierre Lassonde likes to show this, and if we go back 30 years ago in 1989 – in fact, when I first moved to Texas from Toronto – China and India had basically 10% of the consumption of gold every year. And as our GDP per capita has risen substantially, all of a sudden we can see now they are 40% of the world's population, but they're 53% of this global gold demand, and this has – a lot has to do with love. And it's really important to differentiate between what is the fear trade and the love trade. Next please.

So, what is this fear trade? It's a simple binomial model of zeroes and ones for those that like to code, but it is monitoring fiscal policy, which then bifurcates to interest rates and money supply, and real interest rates and fiscal policies, tax and regulations, and spending. And what we've seen under President Trump is a lot of deregulation. And that's part of the big employment growth that he experienced in the first four years until the coronavirus hit and, all of a sudden, it's changed everything. And now we're seeing this massive amount of spending and the spending will have a big impact, I believe, in the price of gold. And that monetary policy, and the expansion of the FED balance sheet, it also has a significant impact on the price of gold, and I'm going to try to walk you through that. So, it's important to recognize that every country has this, sort of, dimension to it, that there's the central bank and there's the government, and in between that is this battle between an imbalance and the greater the imbalance between the monetary and fiscal policies; the weaker the country's currency, the stronger the price of gold is in that country's currency. Next please. And this is another way of looking at this fear trade, the inverse relationship of real interest rates in the price of gold. As more and more countries go through negative real interest rates, the price of gold rallies; and when real interest rates are rising, then the price of gold falls. And it's a very simple defined pattern and that's a key factor for the driving of asset allocators and in particular for you and understanding that fear trade. Thank you. Next. So, this is – another way of looking at that fear trade is global negative debt yields. And we saw gold run up to 17 hundred earlier this year – sorry, last year in August – and that's because a record high of $17 trillion went to negative real interest rates. Now that number slowed down because inflation has collapsed because of the shutdown globally of the economy due to the coronavirus. But now we're seeing a massive pickup in retail spending in America. We're seeing employment start to change. We'll start seeing these numbers improving. We saw out of China, the PMI collapsed to 35 then bounced back over 50. We'll start seeing that trend. And what we could see is rising interest, not rising interest rates, but more important is rising inflation. But they're going to keep rates low and, in particular, in the U.S. this year – it's an election year. Next please. Each asset class has its own DNA of volatility. And this is also morphed with the coronavirus. Bullion, as you can see, compared to gold, historically was always 1%. That means 70% of the time, was a non-event for gold to go up 1%, for the S&P to go up 1%, or fall 1%. It's when they rise 2 or 3% in a day, or fall 2 or 3% in a day, that it's significant. And over 10 days, if the stock market or the price of gold goes up more than 2%, it becomes more significant. And you get these quants coming in and doing mean reversion. Now gold stocks have much greater volatility, as you can see when you look at – versus the price of gold – at emerging markets, but more important is to take a look at Bitcoin, which has always thrown around as the alternative; that fear trade for gold. And, I think, and I've always said this is that I think Bitcoin is going to go down as an asset class, but it's going to be much more like Andy Warhol prints. Now, if you've bought the original Andy Warhol prints on MAU in several different colours, they came out like a thousand dollars and they ran up to a quarter million dollars, fell back at 50,000. They're – and each time when you got a sell off, there's a buy because the overall GDP of the world grows and they become important parts, and I think Bitcoin is going to become that way. And recently, we had a halving and – that is, the supply as new Bitcoins come into the marketplace is halved – and that's always had an impact on any commodity. But what's important for investors here is to recognize the DNA volatility when you hear them say, 'Oh, gold's very volatile. It's very risky'. It's actually not. It's less volatile than the S&P 500. It's gold stocks which are more volatile. Next please.

So, palladium is a great case study. And what we saw with palladium – and going back in 2014 to 2016 – was the peak in the metal supply, and steadily it was falling, and after a couple of years, the price started to rise and it escalated. And it shocked everybody in 2019, that, 'How could palladium go from $1,000 to $2,700/$2,800?' What was going on? And I think we're going to see this in gold. I believe we have peak mine supply. I believe it's more and more difficult, more expensive, the delays and disappointments on exploring – exploration – to developing a mine, to getting an ounce of gold production is just very, very expensive. And that time lag is substantial, that when you look at new months – which are their greatest, biggest, only gold stock of the S&P 500 – they've not grown, they've basically gone sideways for the past five years. And Barrick has basically tried to improve their balance sheet, and that's the same thing. It's very hard to go and find millions of ounces for growth, or millions of ounces for any of these big major companies just to maintain their mine supply. So, when you look at dollars et cetera, we are peaking a new gold supply coming from new mines coming on stream. And I think there's going to be a supply restriction over the next five years that's going to have an impact on the price of gold. Next please. So, this is a classic case study, of looking at the balance sheet of what happened to the FED after 2008/9, and the massive amount of money they use to stimulate the economy. And when you look at that, we saw the price of gold rally, almost 170%. And if you take a look at the recent explosion in the FED balance sheet and – I give you simple terms – when Greenspan was the chairman, the FED balance sheet was about 6%, when he retired, of the GDP in America. Today, under Powell – and due to the coronavirus – it is 33%. This is a phenomenal move. And if we – if this replication takes place, if we get this repeating pattern over the next couple of years, it's very easy to say, gold could be $4,000. And with the G20, I call that cartel that they have – in the finance ministers – and the money printing that is taking place in Europe, in Japan, in China, et cetera, it's easy for gold to be $10,000, but not have a world war. It's – the world war today is not military, but it's more about fighting the coronavirus. And that is seeing – it's how governments are responding to it. I think asset classes like gold are going to take on a new dimension. Next please.

So, we see these big hedge funds, Ray Dalio, Paul Tudor Jones and Sam Zell, and it was a year ago that Sam was saying that he started to buy gold before it ran up the first run to 1700 in August. Now Ray Dalio, the largest hedge fund in the world has always had an affinity towards gold due to the imbalances between monetary and fiscal policies, and has always had this position and believes it's prudent to have the 10% golden rule that is the 10% of your assets should be in gold. And he manages over a $150 billion fund. And I think it's important to recognize he is the real true thought leader in the hedge fund world, and also central bankers around the world, on why owning gold. His influencing has been shown up in more and more even smaller central banks buying gold as an asset class in their foreign currency reserves. Paul Tudor Jones recently started buying Bitcoin, which is sort of interesting because this is before this halving took place, and he's always looking for the alternative asset class. He built his great reputation in the world of commodities, his expertise in the world of commodities, and he's been very bullish for the past year on gold with a much greater exposure to it. So, we do see a (inaudible) et cetera, all looking at gold and they're looking at macro forces. Next please. Now, here's some trivia for you. During the lockdown around the world due to the Coronavirus, the busiest airport in the world became Anchorage. And why was that? It was moving medical supplies to Europe, from Asia and to the US and then down to Latin America. I know this because we have a JETS ETF and why I share this with you, is that a JETS ETF – it was significant because it's the first time ever an ETF fell by 50% and an unprecedented $1.5 billion came into this ETF that we have listed on the New York Stock Exchange. And what was unprecedented was just the sheer 70 days in a row of net positive flows. I think we'll eventually get that in gold. You get this tremendous movement that takes place, but during this pandemic, Anchorage became the busiest airport in the world. Now that's changed recently. Next, please.

Now I always get this news that Warren Buffet did not like the airline industry, and recently the surge in airline stocks, that he got out at very bottom and he left $2.7 billion on the table, but I have to have empathy and understanding for Warren Buffet. Warren Buffet, in August this year turns 90 years old. And when you look at the data of those perishing from, and passing away from, the coronavirus, the median age is 82 years old. So, he's turning 90 and his whole psychology has changed of being risk averse. In fact, this is the first time that you had a global meltdown, that he didn't come in and become a captain of buying a new industry. The thought process is that he'll end up buying Southwest Airlines after the economies actually are able to deal with the coronavirus and a vaccine comes out, but until then, he would – became very negative. Lots of selling took place in the airline stocks, but there's new buyers that came in and I'm going to walk you through that, and the world of quant analysis allows us to do that. But the great oracle of Omaha, he hasn't been bullish on gold either and he's been very negative each year he gets asked about it. And he's been negative on the bitcoin, and he was also negative on Amazon. And now he comes out and says that he's so impressed with what Amazon's leadership has been able to do, but he missed Google also. And that's okay. He's still one of the richest men, the smartest men in the world. I respect him, but he can miss and because of that. Let me walk you through, whenever you hear that he doesn't like gold. Next, please.

Did you know that gold price this year has spiralled past Berkshire Hathaway? Next please. Let's not just look at a short-term time period, let's look at a longer-term time period. Since 2000 – since the tech bubble – bullion has outperformed Berkshire Hathaway. That to me is always the long-term and the short-term, and he just still doesn't get it – that gold is an important asset class. However, he owns gold jewellery and he sells a lot of 14 karat jewellery, but, as an asset class, he doesn't buy it and in a zero-interest rate environment, gold becomes even more attractive. Next please. Gold versus the S&P since the year 2000, which is really America – the economic engine of America. As you can see here, it's almost three times greater. Owning gold, having a weighing on gold, it's just been prudent and wise and so I think you want to make sure you sharing to anyone that's buying gold. It's been one of those darling asset classes that just can't get much respect when it comes to Wall Street. Next please. And Franco-Nevada, one of my favourite companies, because it's a royalty company. It's far outperformed Berkshire Hathaway in the past decade, as you can see here, and it also has a moat around its business model, and it has the highest revenue per employee in the world: Goldman Sachs, it's like a million dollars and Franco Nevada it is over $20 million of revenue per employee. They have royalties on Barrick and Newmont's assets in Nevada, and the average revenue per employee there is about 600,000 versus over $20 million. I love royalty companies, and I think they have a very superior business model and you can see it if you're a quant. Next please.

The other big part that is driving these gold stocks in the quant world, is looking at revenue. And this is a classic of looking at revenue per share. And we look at some of these stocks, as you can see, Kirkland Lake has been a spectacular performer, Alacer Gold, another spectacular performer, because they have the highest revenue per share growth. And when you compare it to the VanEck GDX, you can see it's appreciated over the past three years only 40%, but these stocks have been darlings and GDP is actually revenue per share. And revenue per share is an important metric when looking at a gold stock, it is important when you're looking at an economy and then the revenue per employee, or the revenue per the population. These are important metrics in the quant world of differentiating, of looking for the winners in life. Next please. So, royalty companies names – and this is going back, as you can see the three-year period – they have far outperformed the GDM, the New

York Stock Exchange, Gold Equity Index, it's just gold producers. And you can see 76%. Franco has led the charge, then we have Wheaton, and then we have Royal Gold, all putting on a spectacular performance. Next please. Many royalty companies have greater revenue per employees, I'd mentioned to you. This is just a classic of looking at that. And this purchasing power parity is so important when looking at countries and looking at whether the consumption of bullion is going to take place. Is there a cultural affinity? And is the GDP per capita rising? And is the purchasing power parity rising? Then you can expect that the subculture affinity to greater gold consumption. So, we do get that in the Middle East, we do get that in Southeast Asia, we do get this in China and India. You don't get it in Latin America, you don't get it in Africa where the rising GDP per capita, where there's a cultural affinity of buying gold as an asset class and protecting your family. Thank you. Next, please. And many royalty companies have no debt and they have free cash flow. I think the three big amigos here, Wheaton, Franco and Royal Gold, in the first quarter, had over $400 million of free cash flow. So, that just means they can pay dividends, they can make other investments, they have high profit margins like a tech company. Next please.

So, what's been happening when you're looking at data, there's been a phenomenon that just shocks me during this lockdown is all these millennials they've not been investing, they have trading cryptocurrencies. I've mentioned this, a couple years back, that $5 billion just rolled in from the bitcoin profits going into all these other new cryptocurrencies. They were not speculating, they were not buying stocks, they weren't buying gold. And all of a sudden, this lock down, we saw millennial investors exploding. And you see a Charles Schwab, they announced 600,000, I think, in March – most of those accounts took place in March – and that was the first quarter. In the second quarter, even greater. And it was reported that there was like 2 million at Robinhood. So, what happened? These cheques that they all received – it's interesting that a lot of it went back into becoming day traders. Next please.

So, this is another important data point. Over 3 million new day traders since March. Households making 35,000 to 75,000, who received stimulus checks spending on securities rose 90%. Households making 100,000 to 150,000, 82% went into a speculation and securities. And Robinhood traders are similar to sports bettors. They're predominantly boys and men/young men between the ages of 25 and 34. And when you go to the toolbar of the Schwab's or the TD Waterhouse, there's no mention of gold – you have to dig down. But when you go to Robinhood, it is right up there on the toolbar: Gold. Gold is an important asset class. Next please. Now these are Robinhood investors that look for gold, and you're able to get the data fee of the number of new shareholder accounts. And what has really shocked me, and as I mentioned earlier of launching the JETS ETF five years ago, it was basically going sideways as an asset. It halved at the end of February going into March and then it exploded. And it exploded in new accounts coming from only a couple of hundred to now, 37,000 Robinhood investors. And if they spend $1000, then that would be $37 million. If they spent $10,000, that's $370 million that has gone into the asset class of JETS. The same thing is happening on GLD. And this is a classic, as you can see a huge escalation arising of interest owning gold as an asset class. Next please.

So, one of the things I started the last – three years ago, it was coming up to the anniversary – is applying the quant approach to picking gold stocks. And it's like the movie "Moneyball" with Brad Pitt. And there's been other movies regarding this idea of applying quants to beating the house, speculation in Las Vegas. If you count cards, they don't want you to be there and they can see your face with facial recognition now, they will have you thrown out. Casinos are using this, and I think it's really important for you as an investor to recognize these quants are growing every day, of looking for new datasets to make decisions. So, we did launch GOAUX, we spent 8,000 hours looking at factors and 30% are these royalty companies, and these other factors of revenue per share growth of last report quarters. It just outperforms. And our back-testing said it would outperform the GDXJ 92% of the time – over a rolling 12-month period, it has. And I think this idea of looking at data sets are so important for anyone that's in the world of gold, either it is gold investing or the distribution of gold or gold wafers for investors or gold jewellery. It is the importance of trying to identify using these data sets where the buyers are, and where the new buyers are, and where 24 karat gold jewellery is also something that none of you should be spending a thousand dollars on as gift giving. Next please. So, this is my – one of my happiest pictures. This was taken speaking in Zurich, at the university on the role of gold and someone – this is a real brick of gold and I- can assure you it's heavy. And, unfortunately, every day I wake up, I do my age in push-ups. Next, please. And that is a wrap.

Speaker 2:
Well, Frank, thank you so much for all the views. And I particularly love this idea of the love trade and the fear trade. It's really a nice way to capture the two aspects of the market. Now we've had some questions, but I'm afraid we are out of time. So, we're going to have to follow up afterwards. We might be in touch with you about that. Thank you so much for taking the time.

Speaker 3:
I apologize for running over.

Speaker 2:
No, no. I think we had a lot of people dialled in and the attention was there, so we're really happy that you took the time today. It was very interesting remarks and certainly very enlightening in terms of the power of technology and how it's changing the gold market. So again, thank you so much. And Tayler, I think you've got the upcoming webinars. We're going to call it to a close there and be in touch soon. Thanks again Frank.

Speaker 3:
Happy investing.

Speaker 2:
Cheers.

Interested in contributing?

For information, suggestions, or comments about content of LBMA Webinars, or our Virtual Summit, please contact:

Tayler Birch
Events Coordinator
events@lbma.org.uk
Tel: 07388 798 992

1-2 Royal Exchange Buildings, Royal Exchange, London EC3V 3LF
Tel: +44 (0)20 7796 3067 www.lbma.org.uk