

# The Junior Gold Miners ETF (GDXJ) – Help or Hindrance?

The Junior Gold Miners ETF has pretty much mirrored the GDX in recent times despite a correction in the Junior ETF's structure in recent years. When we first looked at this beast back in 2010 it had as its largest components a number of majors that no-one who knew mining would have called Juniors in a month of Sundays. Most of these are now gone though it remains a misnomer to refer to this as a Juniors ETF when it has the likes of Osisko, Hecla and the soon-to be doubled in size AuRico are ensconced at its highest echelons.

At the beginning the ETF's very existence appeared to make the fortunes of many of its constituents with the buying pressure from the ETF creating a self-fulfilling prophecy. This is a situation that worked in reverse in a more bearish market and had particularly dire circumstances when a stock was deemed no longer ETFable and was cast into the outer darkness of the real world. This would be followed by selling not just by the fund, but by index trackers AND by hedge fund shorters. It was like shooting a fish in a barrel.

Likewise, the onset of the GDX and GDX-J created a Magic Circle of charmed stocks that didn't have the same day to day struggle to attract attention of investors like the vast heaving mass of real juniors. The ETF constituents therefore were able to take more than their "fair share" of financing in the precious metal space.

## **Time to Revisit**

In line with our thesis that the ETF phenomenon has sucked some of the life out of the broader mining finance market we thought it useful to revisit the topic of the GDX-J. We hold that the ETF phenomenon created a two-tiered market for

precious metals stocks with those that are included in the ETF being part of a Magic Circle and those that do not make the cut are left like Dickensian orphans peering through the misty glass at the party going on inside.

Revisiting the ETF in recent days produced some surprises for us. As we had noted in our previous coverage the Index was styled as a junior gold miners ETF and yet had stocks that were not juniors, stocks that were not gold-focused and stocks that weren't miners and far from being so.

### **Weightings – subjective**

The market caps of the biggest stocks in this ETF are well past their junior phase. The table at the right shows the top 25 names at the current time and their market caps in the main trading currency of the stock. We would note that the merged position of AuRico/Alamos would be second on the list.

All Fund Holdings as of 06/16/2015

| Number | Holding                            | Ticker  | Shares     | Market Value    | % of net assets |
|--------|------------------------------------|---------|------------|-----------------|-----------------|
| 1      | Osisko Gold Royalties Ltd          | OR CN   | 6,625,106  | \$88,957,881.59 | 5.63%           |
| 2      | Hecla Mining Co                    | HL US   | 22,519,400 | \$65,756,648.00 | 4.16%           |
| 3      | Northern Star Resources Ltd        | NST AU  | 37,896,262 | \$64,724,453.04 | 4.10%           |
| 4      | Iamgold Corp                       | IAG US  | 27,226,381 | \$62,076,148.68 | 3.93%           |
| 5      | Centamin Egypt Ltd                 | CEY LN  | 64,370,183 | \$61,990,698.95 | 3.92%           |
| 6      | Novagold Resources Inc             | NG US   | 14,153,125 | \$52,508,093.75 | 3.32%           |
| 7      | Aurico Gold Inc                    | AUQ US  | 14,824,005 | \$46,992,095.85 | 2.98%           |
| 8      | Semafo Inc                         | SMF CN  | 16,641,826 | \$46,553,393.09 | 2.95%           |
| 9      | Oceanagold Corp                    | OGC CN  | 19,761,151 | \$43,902,986.90 | 2.78%           |
| 10     | Coeur D'Alene Mines Corp           | CDE US  | 7,488,807  | \$42,012,207.27 | 2.66%           |
| 11     | First Majestic Silver Corp         | AG US   | 8,188,981  | \$41,354,354.05 | 2.62%           |
| 12     | Evolution Mining Ltd               | EVN AU  | 41,680,560 | \$40,815,677.41 | 2.58%           |
| 13     | Primero Mining Corp                | PPP US  | 9,418,852  | \$40,030,121.00 | 2.53%           |
| 14     | Torex Gold Resources Inc           | TXG CN  | 45,787,861 | \$39,725,136.84 | 2.52%           |
| 15     | Alamos Gold Inc                    | AGI US  | 6,393,769  | \$39,449,554.73 | 2.50%           |
| 16     | Silver Standard Resources Inc      | SSRI US | 6,081,206  | \$39,102,154.58 | 2.48%           |
| 17     | Centerra Gold Inc                  | CG CN   | 6,892,738  | \$38,227,785.55 | 2.42%           |
| 18     | China Silver Group Ltd             | 815 HK  | 59,870,000 | \$37,640,592.20 | 2.38%           |
| 19     | Pretium Resources Inc              | PVG US  | 6,333,060  | \$35,655,127.80 | 2.26%           |
| 20     | Lake Shore Gold Corp               | LSG CN  | 32,794,545 | \$34,834,066.29 | 2.21%           |
| 21     | Harmony Gold Mining Co Ltd         | HMY US  | 25,424,651 | \$34,577,525.36 | 2.19%           |
| 22     | Romarco Minerals Inc               | R CN    | 88,546,594 | \$30,872,484.73 | 1.95%           |
| 23     | China Gold Intl Resources Corp Ltd | CGG CN  | 16,691,474 | \$29,910,125.31 | 1.89%           |
| 24     | Fortuna Silver Mines Inc           | FSM US  | 7,077,546  | \$27,814,755.78 | 1.76%           |
| 25     | Alacer Gold Corp                   | ASR CN  | 12,952,583 | \$27,411,207.03 | 1.74%           |

The interesting thing to note is how this stacks up against August 2010 (below). In this we see, compared to now, that:

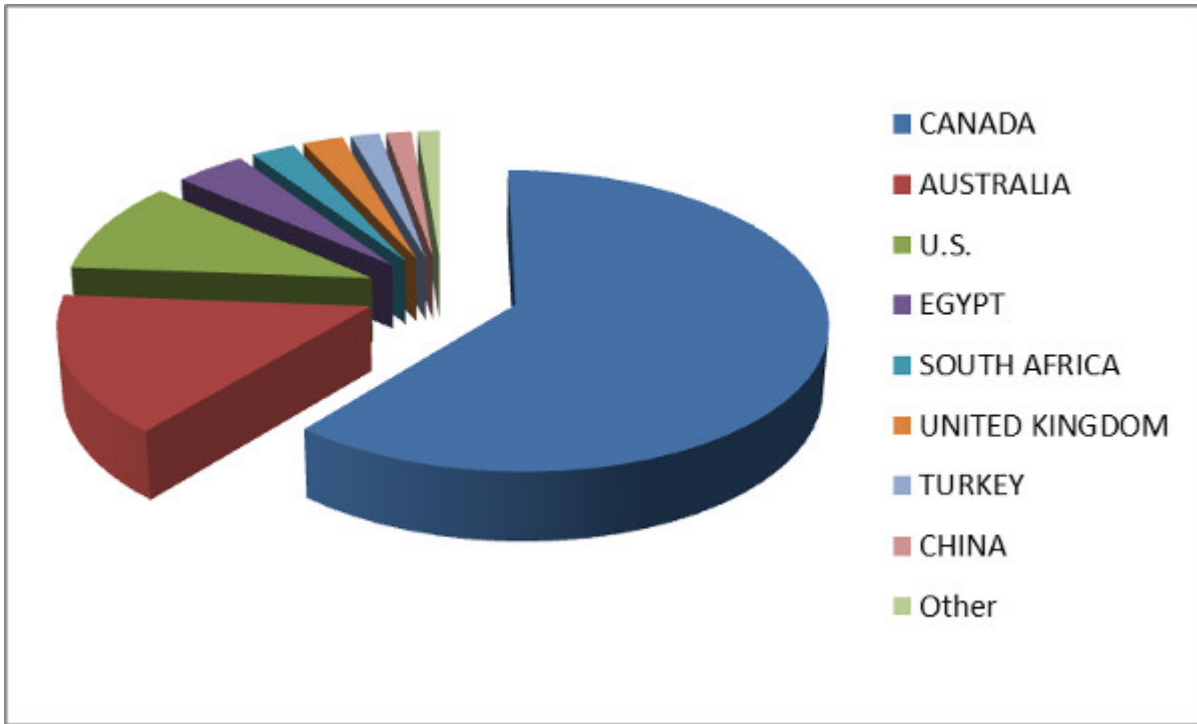
- Newgold has moved on to bigger things
- Allied Nevada has blown up
- Hecla rising
- The combined Alacer (Avoca and Anatolia) now being quite a deal lower than either of its constituent parts in 2010
- Romarco holding its status remarkably well despite travails in the meantime and the fact its not even in production
- European Goldfields was taken over for \$2.4bn by Eldorado Gold
- Andean Resources was taken over by Goldcorp
- Nevsun is now primarily a copper producer

## Fund Holdings as of 08/13/2010

| Number | Holding                           | Ticker  | Shares     | Market Value    | % of net assets |
|--------|-----------------------------------|---------|------------|-----------------|-----------------|
| 1      | New Gold Inc                      | NGD CN  | 11,922,793 | \$66,154,790.17 | 5.56%           |
| 2      | SEMAFO Inc                        | SMF CN  | 8,096,593  | \$66,139,204.93 | 5.56%           |
| 3      | Alamos Gold Inc                   | AGI CN  | 3,644,851  | \$57,581,693.86 | 4.84%           |
| 4      | Detour Gold Corp                  | DGC CN  | 1,617,895  | \$45,648,920.67 | 3.83%           |
| 5      | Coeur d'Alene Mines Corp          | CDE US  | 2,866,461  | \$41,678,342.94 | 3.50%           |
| 6      | Allied Nevada Gold Corp           | ANV US  | 2,082,171  | \$40,581,512.79 | 3.41%           |
| 7      | Hecla Mining Co                   | HL US   | 7,920,511  | \$38,335,273.24 | 3.22%           |
| 8      | Gabriel Resources Ltd             | GBU CN  | 8,437,791  | \$37,470,587.14 | 3.15%           |
| 9      | European Goldfields Ltd           | EGU CN  | 4,392,792  | \$36,941,599.23 | 3.10%           |
| 10     | Silvercorp Metals Inc             | SVM CN  | 5,143,710  | \$35,378,180.71 | 2.97%           |
| 11     | San Gold Corp                     | SGR CN  | 8,686,844  | \$33,974,170.73 | 2.85%           |
| 12     | Aurizon Mines Ltd                 | ARZ CN  | 4,878,898  | \$28,480,995.93 | 2.39%           |
| 13     | Perseus Mining Ltd                | PRU AU  | 13,156,627 | \$27,394,425.40 | 2.30%           |
| 14     | Anatolia Minerals Development Ltd | ANO CN  | 4,457,329  | \$27,265,233.74 | 2.29%           |
| 15     | Silver Standard Resources Inc     | SSRI US | 1,589,088  | \$25,870,352.64 | 2.17%           |
| 16     | Nevsun Resources Ltd              | NSU CN  | 6,209,503  | \$24,883,472.19 | 2.09%           |
| 17     | Kingsgate Consolidated Ltd        | KCN AU  | 2,838,859  | \$24,737,812.11 | 2.08%           |
| 18     | Golden Star Resources Ltd         | GSS US  | 5,540,400  | \$24,377,760.00 | 2.05%           |
| 19     | Avoca Resources Ltd               | AVO AU  | 9,236,104  | \$23,667,555.31 | 1.99%           |
| 20     | Lake Shore Gold Corp              | LSG CN  | 6,476,716  | \$23,084,336.00 | 1.94%           |
| 21     | Romarco Minerals Inc              | R CN    | 11,974,189 | \$21,569,919.50 | 1.81%           |
| 22     | Ventana Gold Corp                 | VEN CN  | 2,533,699  | \$21,185,345.65 | 1.78%           |
| 23     | Andean Resources Ltd              | AND CN  | 5,487,040  | \$20,666,916.87 | 1.74%           |
| 24     | Great Basin Gold Ltd              | GBG CN  | 10,971,300 | \$20,291,779.21 | 1.70%           |
| 25     | Rubicon Minerals Corp             | RMX CN  | 5,004,625  | \$20,199,767.60 | 1.70%           |

How times have changed... In 2010 eight million shares of Semafo would have cost you \$66mn and nowadays, double that number of shares costs you a third less.

The pie below is curious also. While we would concede that Canada has more mid-tier gold miners than anyone else this massive skewing towards Canada is an aberration. There are only two Australian gold miners in the top 25 stocks in the current make-up of the ETF! Additionally if one removes Hecla (by dint of it not being a junior) the US share almost disappears.



### Comparatively Speaking

The chart below shows the GDJ-J versus the GDJ over the past six months. The “juniors” have been almost joined at the hip with the GDJ. This is interesting because in the past when we have looked the Juniors ETF has tended to either strongly outperform or strongly underperform the heavyweights in the GDJ, and rarely mirror them.





## **Blessing or Curse**

It might seem like a gift from heaven for a company to be chosen to be included in this ETF. However, when one looks at those “lower down the totem pole” it can be a precarious and ultimately damaging experience. A company which we spoke to recently had been advised it was being removed because its market cap had fallen below some threshold. The ETF manager apparently made this known a few days before they were to actually start selling what was a sizable lump of stock that no mining company’s management would want to see coming back into the market over a short period of time.

To make matters worse, hedge funds had cottoned on to this gap existing between intention and execution and have repeatedly shorted the intended “expellees” in the time available. The executive we spoke to said that he had also discovered that authorities had instituted a *sotto voce* shorting ban on these targeted stocks. While this seems sensible, it also does smack of being a band-aid (dare I say, a market distortion) designed to correct a failing in the rules that allows hedge funds this window to “play” in the first place.

## **Conclusion**

It would appear that unlike the GDX, the GDX-J suffers from less science and more art. The weighting of the GDX components are set from outside (the Alternext) whereas the GDX-J has the distinct look of an investment trust of “fave picks” of some nameless/faceless PM that we are expected to assume is a HAL9000 in a Manhattan basement, but might very well be a not-so-frustrated stockpicker given free rein with a largish chunk of money.

This brings us full circle to our thesis *du jour* that the advent of ETFs particularly the gold physical ETFs (eg GLD), the GDX and now the GDX-J have created a form of apartheid in which the few lord it over the many and, most particularly,

hog the scarce financing resources in the space. Frankly if there is no, or little, science to the GDX-J and it's just a wish-list of an unnamed someone then investors might just as well use the time-honoured technique of sticking a pin in the newspaper's daily stock price list.

In a bull market, being elevated to the status of "ETF-approved" is quite a feather in the cap for a miner (or at least was) but now it is so long since the bull market ended that one wonders if it isn't now a case of "careful what you wish for". Being ejected from the ETF may bring more problems than ever having being added to it in the first place.