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AUAG SILVER BULLET



Sweden's Riskiest Fund – or a Silver Bullet for a Precious Metal Rally?

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As the founder of a precious metals-focused fund back in 2016, Eric Strand is now launching a new fund under his own boutique AuAg Fonder. The new fund called AuAg Silver Bullet is the first silver-focused long-only equity fund in Europe, according to Strand. This is perhaps “Sweden’s riskiest fund,” he considers, despite embracing a zero-leverage policy that does not favor investments in leveraged financial products. AuAg Silver Bullet is a long-only fund maintaining a focused portfolio of 20 to 30 holdings in silver and gold miners. The fund also maintains some exposure to silver for cash management purposes.

The launch of the fund has coincided with the beginning of a bull market in precious metals. “Precious metals have just confirmed the start of a secular bull market,” says Strand, who adds that the “bull markets in equities and bonds are getting long in the tooth.” Gold represents the “perfect stabilizer for a portfolio in the short term” and silver- and gold-related stocks tend to exhibit low correlations with the broader equity market in the long term. AuAg Silver Bullet, therefore, is designed to provide benefits beyond attractive returns, such as improved portfolio diversification.

“If you are in the camp of believing in a strong multi-year phase for gold, you should buy silver,” argues Strand. Even better, “you should buy the miners for greater returns.” The price development of the yellow metal has historically driven the price of silver as well. More importantly, “in a bull market for precious metals, silver normally outperforms gold and silver miners outperform gold miners” according to Strand. This phenomenon partly explains AuAg Silver Bullet’s focus on silver and silver miners, which differentiates the fund from other players in the field.

Stock Selection Process, Silver in Focus

From the universe of silver and gold mining companies, AuAg Silver Bullet builds a focused portfolio of 20 to 30 names. Strand has a strong preference for liquidity as “I always think of the “Exit” first, which means that I want equities that are liquid and preferably trading on US stock exchanges.” The portfolio manager then examines the output of silver and gold and the demand for the two metals to assess the attractiveness of the white metal. Over the past several years, global demand for silver has exceeded supply, but if investments in silver bars and coins are excluded, then the supply of silver has surpassed demand. Therefore, if owning precious metals becomes attractive to investors, demand for silver as a store of value can increase and dramatically influence prices.

According to Strand, “the price of silver is historically very low compared to the price of gold.” Because of fairly inelastic silver mining output (as most silver comes as a byproduct of mining other metals such as gold, copper or zinc) and a looming physical silver shortage, “the

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dynamics for very high prices are in place for silver-focused miners.” As Strand explains the longer-term bull case for silver, “silver is a metal with high resistance to corrosion and oxidation and has the best thermal and electrical conductivity of all metals, which makes the white metal indispensable in our high-tech and green world.” There is a broad-based and diverse range of uses for silver in all sorts of technologies, including solar panels, touch screens, water purification, among other things. Silver’s unique properties make the white metal attractive as both a precious metal and industrial metal.

Since miners are never extracting either gold or silver, Strand looks for the mining companies that provide the purest exposure to silver. “Then I want safe jurisdictions for mining operations,” adds the portfolio manager. When searching for and examining potential investment candidates, Strand also looks for experienced and high-quality management teams. “It is important to invest in a company with experienced management because mistakes in the mining industry can become very expensive,” emphasizes the portfolio manager.

To get the final mix of holdings in his concentrated portfolio, Strand embraces both momentum and value styles. Because AuAg Silver Bullet is a long-only fund, the portfolio manager always searches “for a better option before replacing an existing holding.” Ideally, however, he prefers an infinite holding period for all the stocks that pass his stock selection process. “We want to stay invested forever in each stock that passes the selection process.”

Perfect Conditions for Launching Sweden’s Riskiest Fund

Strand reckons that the current environment with “a lot of money printing” offers the ideal market conditions for AuAg Silver Bullet. This environment “offers a great set-up for a capital rotation to commodities and precious metals in particular,” argues the portfolio manager. Because much capital has flown into equity and bond markets in recent years as a result of cheap money, Strand considers that investor capital may leave these richly-valued markets in pursuit of cheaper alternatives.

“Investors cannot lean back on a traditional 60/40 mix of stocks and bonds this time and must look for investments that can provide returns and simultaneously exhibit low

correlations with other holdings in existing portfolios.” For these reasons, Strand expects AuAg Silver Bullet to thrive in this type of market environment.

“Gold and silver are the only currencies that do not require a counterparty signature,” points out Strand, who adds that “credit instruments and fiat currencies depend on the creditworthiness of counterparties.” By implementing unconstrained negative interest rate policies, “governments and central banks are not solving the debt problem of the world.” These policies are exacerbating the problem instead, argues Strand. “By trying to solve a debt problem with more debt, the problem grows exponentially before it implodes.” The world’s mounting debt levels, therefore, should also be fundamentally positive for gold and silver prices.

“Silver miners have a history of enjoying returns of up to 600% in bull markets before going down 80% in the following bear market,” points out Strand. “With a secular bull market for precious metals starting now, I hope the fund will shine bright.”

AuAg Silver Bullet is suitable for both retail investors and institutional investors such as family offices, funds of funds, and others that believe in a strong multi-year bull market for gold and silver. The fund is launching with two types of share classes, one denominated in Swedish krona and other one in Euro, to make the fund attractive to both local and European investors.

Because silver acts as one of the most volatile commodities and mining companies perhaps form one of the most volatile industries in equity markets, Strand expects AuAg Silver Bullet to exhibit high volatility in returns. “This can probably be the fund with the greatest risk without incorporating any leverage,” says Strand. “Everything from market conditions, strong return potential to low correlation with traditional equity markets is aligned to make this exciting fund launch a Silver Bullet for a better performing portfolio.”