

GDXJ Junior Gold ETF

Among all commodities stocks, no group is as alluring and dangerous as junior gold stocks. The vast majority of these small companies are explorers, having never made a single dollar in sales. Yet investors and speculators still flock to them. Junior golds far outnumber juniors in every other commodity *combined*.

The draw is unbelievably-high potential returns. While the odds are stacked heavily against juniors in general, the rare exceptions that prove successful in developing a large gold deposit into a working mine earn great fortunes for their shareholders. In this high-reward realm, 10x gains in capital invested are disappointing. Over the years the very best juniors have earned 100x+ returns for their shareholders!

But the risk borne for a shot at such epic gains is extraordinarily high. Statistically the great majority of junior gold stocks fail, leaving their shareholders with total losses. Finding gold in this increasingly-scoured world is exceedingly difficult, and even after a new deposit is discovered a junior must be able to survive the typical *decade-long* development cycle with zero internally-generated cashflow. If it can't issue new shares or borrow money to advance its project, it is doomed.

And even if juniors can raise capital, they are still very unforgiving. Back in November 2007 the elite market-darling junior NovaGold shocked investors with a stunning announcement it was suspending construction at its flagship project just 6 months after it started. Even though investors loved this leading blue-chip junior, its stock was devastated. It gapped down 27% on open, and ultimately closed down 53% *in a single trading day* where volume ran 20x normal levels! Junior golds are not for the faint of heart.

Even if you can stomach junior golds' colossal risk, it is very challenging to separate the small fraction of high-potential winners from the great sea of dross destined to fail. In the US and Canada alone today, there are over 400 publicly-traded junior gold stocks. Even the most cursory analysis requires several hours *per junior*, with serious analysis taking dozens of hours per company. Juniors' research time cost is steep.


So for the average investor, junior golds weren't very practical. But thanks to the brave new world of ETFs, this is changing. Just months ago in November 2009, Van Eck Global launched an exciting new junior-gold-stock ETF. To the best of my knowledge, it is the first of its kind. Trading under the symbol GDXJ, the Junior Gold Miners ETF provides a great new way for investors to quickly and easily get diversified junior-gold exposure.

If this GDXJ trading symbol sounds familiar, it is because of Van Eck Global's earlier GDX ETF launched in May 2006. This [GDX Gold Miners ETF](#) has been

very successful. With \$5.2b in assets, it ranks in the top 2% of all ETFs. This is extremely impressive since gold stocks are such a small sector relative to the broader markets. The sovereign-wealth fund of China even owns GDX per its latest SEC filings! The new GDXJ symbol is based on the established GDX one, with an added “J” for junior.

In order to be considered for inclusion in GDXJ, juniors must first meet some key requirements. They have to be smaller companies that generate at least 50% of their revenues from gold or silver mining, hold real property with the potential to produce 50%+ of their revenues from gold or silver mining once developed, or primarily invest in gold or silver. They need to have market caps exceeding \$150m, with average daily capital trading volume over \$1m. Many excellent junior golds fit these selection criteria.

A couple weeks after launch, GDXJ had 38 component companies. Today it is up to 55. It is pretty awesome that any investor, with any amount of capital, can instantly get *diversified* junior-gold exposure in 55 junior gold stocks by adding this new ETF to his portfolio. GDXJ already has options trading on it too, giving speculators a great junior-gold trading vehicle. Here are GDXJ’s top holdings today, totaling 81% of its entire portfolio.

 GDXJ Top Component Companies and Weightings (As of March 23, 2010)													
			Market Cap.		GDXJ		Market Cap.		GDXJ				
NGD	Gold	P	CN	\$1,734m	4.2%	4.8%	VEN	Gold	E	CN	\$902m	2.2%	2.3%
AGI	Gold	P	CN	\$1,557m	3.7%	4.4%	KCN	Gold	P	AU	\$785m	1.9%	2.0%
HL	Silver	P	US	\$1,360m	3.3%	3.8%	ARZ	Gold	P	CN	\$760m	1.8%	2.0%
SMF	Gold	P	CN	\$1,322m	3.2%	3.7%	AND	Gold	E	CN	\$1,146m	2.7%	2.0%
CDE	Silver	P	US	\$1,280m	3.1%	3.6%	RMX	Gold	E	CN	\$878m	2.1%	1.9%
SSRI	Silver	P	US	\$1,410m	3.4%	3.6%	MFN	Gold	P	US	\$638m	1.5%	1.8%
GRS	Gold	P	US	\$1,190m	2.9%	3.2%	PRU	Gold	E	AU	\$601m	1.4%	1.7%
SVM	Silver	P	CN	\$1,153m	2.8%	3.0%	XRA	Gold	E	US	\$563m	1.3%	1.7%
NG	Gold	E	US	\$1,460m	3.5%	2.9%	FRG	Gold	E	US	\$597m	1.4%	1.7%
ANV	Gold	P	US	\$1,190m	2.9%	2.7%	ANO	Gold	E	CN	\$598m	1.4%	1.7%
GSS	Gold	P	US	\$976m	2.3%	2.7%	LSG	Gold	E	CN	\$943m	2.3%	1.6%
JAG	Gold	P	CN	\$918m	2.2%	2.6%	GBG	Gold	E	CN	\$586m	1.4%	1.6%
DGC	Gold	E	CN	\$1,274m	3.1%	2.5%	R	Gold	E	CN	\$737m	1.8%	1.6%
NXG	Gold	P	US	\$913m	2.2%	2.5%	CGA	Gold	E	CN	\$622m	1.5%	1.5%
GBU	Gold	E	CN	\$1,421m	3.4%	2.4%	AVO	Gold	P	AU	\$525m	1.3%	1.5%
SGR	Gold	E	CN	\$870m	2.1%	2.4%	CSI	Gold	E	CN	\$554m	1.3%	1.4%
EGU	Gold	E	CN	\$1,161m	2.8%	2.3%	22 more stocks		\$9,097m	21.8%	18.0%		

(Gold 84%, Silver 15%) (Producers 61%, Explorers 38%) (Canada Listings 55%, US 32%)

GDXJ's internal allocations among its various components are loosely based on market capitalization, which is the best way to structure a sector ETF. Larger stocks should have more of an overall portfolio impact than smaller ones. You can see GDXJ's component weightings in black above, right next to their actual market-cap percentages of components' total market capitalization in gray.

These market-cap numbers are all converted into US dollars from the exchanges on which GDXJ owns its shares.

There are few major deviations between relative market caps and GDXJ's allocations, which is great to see. This is a big contrast from GDX the last time I dug deep into [its holdings](#) in late 2007. Interestingly, the *total* native-exchange market cap of all 55 GDXJ components this week was under \$42b. This is nothing, as there are over 50 *individual stocks* in the S&P 500 with larger individual market caps. The junior golds remain a vanishingly-small and ultra-high-potential sector.

As you can see above not all of this "Junior Gold Miners ETF" is invested in junior golds. It actually has significant silver exposure, to some *major* silver producers no less. Among its top holdings are Hecla Mining, Coeur d'Alene Mines, Silver Standard Resources, and Silvercorp. Overall, about 84% of GDXJ's components (by this ETF's allocation weightings) are involved in gold with the rest in silver.

While this silver dilution irritates some investors, I don't have a problem with it. Most gold-stock investors like silver stocks as well. And silver is actually a fairly-common byproduct in primary gold operations anyway, so plenty of gold miners produce silver as well (and vice versa). Most of the time when I use the phrase "gold stocks", what I really mean is "precious-metals stocks". So GDXJ's silver exposure is fine, and it should augment this ETF's ultimate returns if today's secular silver bull outperforms gold's.

More provocatively, about 61% of GDXJ's allocation is in *producers* with only 38% being in explorers (the remainder is a small position in cash). Small producers, those rare juniors that beat the long odds to actually start mining gold or silver, are much less risky than exploration-stage companies. Producers actually have something to sell to generate cash. While some *small* producers can be called juniors, in my mind the real juniors are the explorers that haven't yet transformed projects into operating mines.

This relatively-low ratio of explorers in GDXJ is a double-edged sword. On the bright side, the lower the explorer exposure the less risk this entire ETF bears for investors. But in the financial markets, lower risk always corresponds with lower potential returns. The truly legendary gains in the junior-gold realm all came from small explorers that eventually grew into producers. So with such a minority focus on exploration-stage juniors, GDXJ's returns will never come remotely close to rivaling those of successful individual juniors.

Interestingly, by allocation percentage 55% of GDXJ's holdings are held on Canadian stock exchanges, 32% in the States, and the rest scattered in Australia, Hong Kong, and London. Thus GDXJ offers American investors a unique opportunity to get exposure in gold juniors that they couldn't buy here in

the States with an ordinary brokerage account. Most US accounts are only enabled for US-listed stocks.

For serious gold-stock investors, the ability to trade outside of the US is nothing special. Because of onerous financial regulations here in the States, well under 10% of the junior gold stocks listing in North America have primary US listings. 90%+ list in Canada, so most serious gold-stock investors take the time to open a US brokerage account with direct access to the Canadian exchanges. But for casual American investors looking for some quick junior exposure, GDXJ offers excellent international diversification.

This being said, GDXJ's international allocation is not truly as high as this table indicates. Why? There are some GDXJ components this ETF owns on Canadian exchanges that also have major-market listings here in the US. For example, GDXJ's top holding is New Gold at 4.8% of its capital. Though GDXJ's custodians hold it in Canada, you can easily buy it on the AMEX as well. A sizable fraction of GDXJ's "Canada" exposure could easily be replicated by buying the US AMEX listings of *the very same companies*. So realize GDXJ's international exposure is effectively lower than advertised.

GDXJ's custodians are probably not trying to mislead American investors though. In some cases, companies with dual US and Canada listings do more trading volume in Canada. And as an ETF with relatively-large holdings in these companies, it is prudent for GDXJ to hold any particular stock wherever it is most liquid and easiest to trade. Regardless, GDXJ still provides American investors with excellent exposure to many awesome Canadian juniors that *don't have* major-market listings in the US.

GDXJ's benefits for investors and speculators are very clear. It provides a quick and easy way for anyone to get instant diversified exposure to a broad array of gold juniors. It eliminates the difficulties of researching and constructing one's own junior portfolio and really lowers transaction costs (one commission instead of dozens). It creates a great basket in which to ride gold uplegs, and since GDXJ is fully optionable speculators can now easily actively leverage junior golds' uplegs and corrections.

But GDXJ's impacts extend far beyond investor ease. It is going to radically change the underlying junior landscape itself. Remember that junior-gold explorers have no source of revenue, so they rely on the capital markets for cash to stay afloat. The higher their stock prices, the easier it is for them to issue shares and raise cash. When GDXJ buys any junior stock, naturally this buying pressure drives it a little higher. Thus any junior fortunate enough to make the GDXJ component list will have an easier time raising capital, increasing its odds of proving successful.

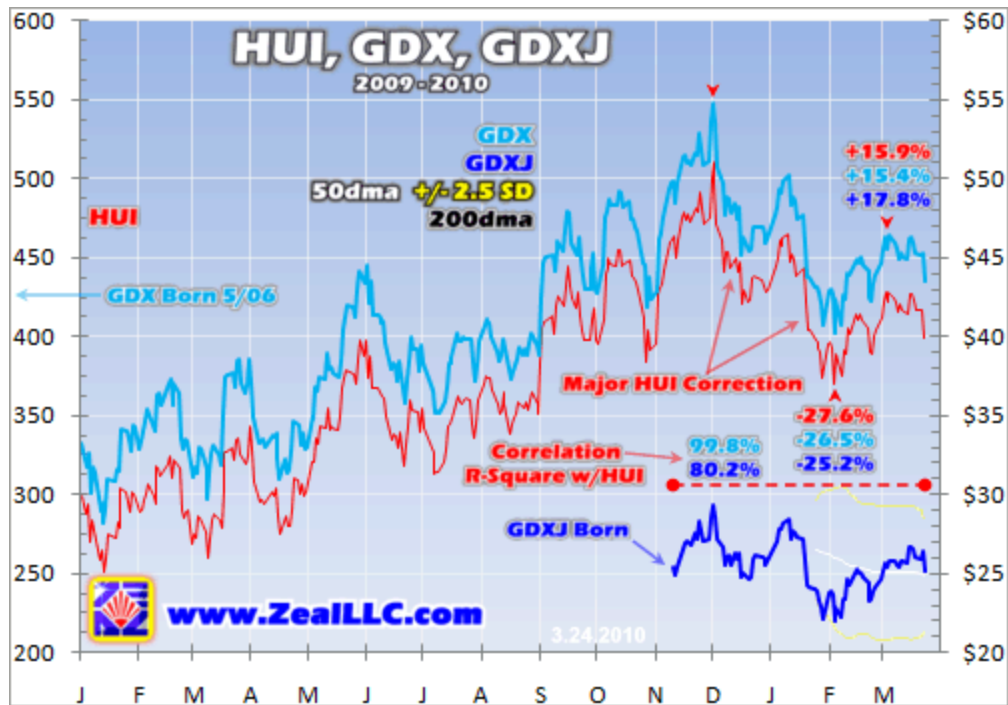
And the larger GDXJ grows, the more this effect will multiply. Today GDXJ's net assets are a relatively-small \$920m or so. As more investors learn of GDXJ and its power to efficiently add diversified junior-gold exposure to their portfolios, they will buy it and its assets will grow. As GDXJ grows, its capital deployed in junior golds will increase. More capital flowing from investors *through this ETF* into junior stocks will drive their stock prices higher. This not only helps them raise capital on more-favorable terms, it ignites a positive feedback loop where higher prices drive more investment which drives higher prices.

Much like the massive [GLD gold ETF](#) forever changed gold investing by creating the first-ever conduit for stock-market capital to flow directly into physical gold, I suspect GDXJ will ultimately have a similar effect on juniors. Investors who would never take the time to find great juniors, or could never bear the extreme risks these individual stocks impose, can now bypass these challenges with a simple GDXJ allocation. GDXJ is almost certain to greatly expand the pool of capital invested in this high-risk high-reward sector.

As a long-time direct speculator in junior gold stocks, GDXJ really excites me. The more capital chasing juniors, the higher their stocks will ultimately run. And GDXJ opens a huge new conduit making this possible, really revolutionizing junior-gold investment. But as a student of the markets, I am also super-stoked about GDXJ's value as a tracking vehicle. There has never been an easy way to track the progress of juniors compared to the broader gold-stock sector as measured by the [HUI gold-stock index](#).

Over the years we've tried various proxies for junior gold stocks, but none were optimal. The primary example is the [S&P/TSX Venture Composite Index](#), still known by its CDNX symbol from its original Canadian Venture Exchange days. While over 3/4ths of the companies in this index are smaller resource stocks, less than 2/3rds of these are gold stocks. Thus only about half of the CDNX index, at best, is comprised of junior gold stocks. This means CDNX charts are riddled with tons of non-gold noise.

But GDXJ provides a far-superior junior-gold tracking vehicle, supplanting all the other clumsy attempts to measure juniors as a sub-sector. As GDXJ's trading record grows, we'll be able to compare its price moves during major gold-stock uplegs and corrections to the HUI itself's. So GDXJ is going to evolve into a wonderful new analytical tool that will greatly expand investors' knowledge of how junior golds move as a group. I can't wait to analyze it!



This chart compares the HUI in red, the GDX gold-stock ETF which mirrors it in light blue, and the new GDXJ junior-gold ETF in blue. Since GDXJ was just born in November, it has only experienced one major event in gold stocks. This was the HUI's latest major correction which ran from early December to early February. During that span where it fell 27.6%, GDX lost 26.5% and the brand-new GDXJ shed 25.2%. This is far too short of span to draw conclusions from, but it is all the data we have at this point.

But there is a tantalizing clue that the GDXJ juniors will ultimately end up tracking gold *differently* than the GDX majors. Since the GDXJ's inception, it has had a correlation r-square with the HUI of 80.2%. Statistically, 80% of GDXJ's daily price action so far has been explainable by the HUI's own. Over this same span, the GDX holding major gold miners had a 99.8% r-square. So effectively 100% of its daily price action since early November was mathematically explainable by the HUI's own.

Thus even in GDXJ's infancy, its gold juniors are behaving noticeably differently than their major brethren as expected. The more GDXJ trading data we accrue to analyze, the better we will understand the trading tendencies of the junior sub-sector compared to the larger gold-stock sector. This will help optimize buy and sell timing for juniors specifically, something that was almost impossible without a consistent measuring stick for juniors as a whole.

At Zeal we brought our subscribers up to speed on GDXJ just after it was launched. But with gold stocks so overbought back in late November, and GDXJ having no trading history, it wasn't the right time to buy it. But after the HUI's

latest correction, GDXJ is looking very attractive. We currently have open call-options positions in it in both our [weekly](#) and [monthly](#) newsletters. And with gold stocks under pressure this week, now is a great time to add these or our extensive other gold-stock positions. [Subscribe today!](#)

Despite the considerable benefits of ETFs, I'll always prefer individual stocks. That way we can hand-pick the highest-potential ones while avoiding the inferior ones that creep into every ETF. We just finished a large project where we spent the last several months painstakingly researching a universe of nearly 400 junior gold stocks that trade in the US and Canada. We whittled this list down to our dozen favorite *advanced-stage* junior golds, elite explorers on the verge of becoming new gold producers.

We profiled this elite dozen in a comprehensive new [fundamental report](#) just published on our website. Representing hundreds of hours of world-class research condensed into 26 pages, this is a steal at just \$95 (\$75 for Zeal subscribers). While 7 of these soon-to-be-famous junior golds are included in GDXJ today, their combined weight is less than 11% of this ETF. If you pick any 7 of our favorite advanced-stage juniors, your ultimate returns will almost certainly multiply GDXJ's many times over. [Buy your report today!](#)

The bottom line is the new GDXJ Junior Gold Miners ETF offers investors a quick and easy way to get *diversified* junior-gold exposure. For casual investors, it eliminates key problems that have long plagued junior-gold investing. These include the serious challenge of researching to separate the high-potential junior golds from the dross, and buying junior golds outside the US where the great majority of them list. GDXJ also really reduces transaction costs for a casual diversified junior-gold deployment.

This investor-friendly junior approach will also radically impact junior golds themselves. As more capital floods into this tiny sector via this new GDXJ conduit, junior-gold stock prices will rise. The higher their stocks, the easier it is for these companies to raise cash through equity offerings to advance their projects. By linking juniors to potentially vast new pools of stock-market capital, GDXJ will revolutionize this sector.

Adam Hamilton, CPA

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So how can you profit from this information? We publish an acclaimed monthly newsletter, [Zeal Intelligence](#), that details exactly what we are doing in terms of actual stock and options trading based on all the lessons we have learned in our market research. Please consider joining us each month for tactical trading details and more in our premium Zeal Intelligence service at ...

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Questions for Adam? I would be more than happy to address them through my private consulting business. Please visit www.zeallc.com/adam.htm for more information.

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