

Chapter 1: My Foray Into Gold and Silver

Let me tell you where my journey with gold and silver began...

It was the second week of April 2013 when the gold price fell more than US\$20 an ounce in a matter of three trading days. On Thursday, 11 April, gold closed at US\$1,565. It dropped by almost 4% during Friday's trade to close at US\$1,504. The mood was heavy over the weekend, with talks about the US Federal Reserve implementing a policy to normalise bond yield curves, which could push the gold price down further.

Precious metals enthusiasts will remember Monday, 15 April 2013 as a day of infamy. Gold plunged by over 10% during the day, one of the biggest drops in recent times. It closed at US\$1,359, a price level not seen since September 2010 when gold was on an upward trajectory that took it to a high of US\$1,921 exactly a year later.

If gold's move was shocking, the impact on gold mining stocks was devastating. Many companies plunged by double-digit percentages. Some investors started buying near the close of the market on Monday to pare the losses, so many companies only suffered declines of around 10–15% on the day.

Looking at the size of the decline on that day may imply there was not much devastation. However, I can assure you that those who held shares in these companies, myself included, were shell-shocked by the move.

My portfolio, which contained around 35% in gold stocks, took a beating. On that Monday, I sustained a paper loss exceeding \$10,000. While a seemingly modest figure, my portfolio was worth around \$140,000, which equated to a 7% decline.

This was not the first time I copped a daily loss of this magnitude. I experienced the 2007/09 subprime crisis and saw my share portfolio slump in August 2007, throughout 2008, and again in March 2009. But those were broad market losses, where almost everything fell.

This time was different. My portfolio took a beating from one particular group of assets — gold stocks. I needed to review what I was doing and expand my knowledge to help me decide what action to take — cut my losses, hold on, or exploit the weakness.

I contacted my friend, Azib, from primary school. We chatted about the events unfolding in the gold market. Fortunately, he was free to catch up for lunch on Sunday after church. We sat down at our local shopping centre food court.

It was a busy afternoon. Many were gathered to catch up with family and friends. I purchased my lunch while Azib decided to forgo lunch as he had eaten already. It was just as well because he would do most of the talking.

A life-changing conversation

Azib gave me a crash course on the fiat currency system, the US Federal Reserve and the central banks, and how their policies on currency management and interest rates would

move the world. More importantly, he explained how the financial system would benefit a few at the expense of many, and why gold is a solution to help us avoid becoming victims.

Before this meeting, I was vaguely aware of the role of the Federal Reserve and the importance of its monetary policies. I heard about the latest policy, dubbed Operation Twist, which involved major banks buying bonds with near-term maturities and selling bonds that mature many years later to steepen the yield curve and create the impression of a recovering economy. However, my understanding was limited as the news sources I followed provided little detail and I had not delved further. I just knew that it could cause the price of gold to drop, without understanding the mechanism or the magnitude.

At one stage, we discussed the implications of the Federal Reserve's actions on the price of gold. I was more interested in my gold stocks, of course, as I did not own any gold coins or bars at the time. What I wanted to know was whether this fall in the price of gold could present an opportunity or threat with regard to my gold stock holdings.

I remember part of the conversation quite clearly...

Azib: 'The US Federal Reserve prints currency, which causes interest rates to fall, which means easier borrowing, more spending, inflation in the markets, inflation in the streets...'

Me: 'But why did the gold price drop? And will gold stocks recover?'

Azib: 'Brian, the gold price is not meant to drop but the price is controlled by the central banks and investment banks who trade it. As for gold mining companies, they are different to gold. You should buy and hold gold because it is cheap and it has to rise.'

Me: 'Wait a minute — how come a future rise in the gold price does not mean gold stocks will also rally?'

Azib: 'Because gold stocks are a business. They can go down even as the gold price goes up.'

Me: 'Okay... What types of gold should I hold?'

Azib: 'Well, you can buy allocated gold in bullion stores, or you can buy coins and bars. I buy allocated units of gold.'

Me: 'Uh huh...' (In my mind I was thinking about gold stocks.)

Azib: 'Brian, if you want to buy gold stocks, I will flick you an article and you can read about it.'

Me: 'Thanks for that; I look forward to it.'

Coming out of the lunch, I learnt quite a bit about the financial system. However, there remained many unanswered questions and unresolved issues, including:

- How exactly does the US Federal Reserve's monetary policy affect economic activity, inflation and unemployment, and their impact on the price of gold?

- How do investment banks affect the price of gold and why do they choose to execute trades at certain times when trading volumes are low to move prices?
- Why does the price of gold rise in the long term despite central banks and investment banks intervening to move the markets?
- Why do gold and gold stocks move in a different manner, and what drives their prices?

And with that, I delved into the rabbit hole of money, currency and our financial system. As you read this book, hopefully you will get a clearer picture of it all.

Before I do this, let me tell you about my background and how my journey started.

From university academic to sceptic

In 2013, I was a university academic teaching and undertaking research in actuarial studies, risk management, and finance. I had aspired to become a teacher when I commenced my university studies in 2001. I wanted to educate, and become a role model for, the next generation of actuaries and risk managers.

My career path did not resonate well with my parents, who were traditional Asian professionals. They wanted me to follow the conventional path: secure a stable job in the corporate world, save up to buy a property, and spend my working life paying off the house, possibly building more wealth with investment properties. They discouraged me from pursuing the academic career path, thinking it would be less lucrative and offered fewer options. But as I made breakthroughs in my career, with the help of supervisors and the demand for more academics in my field, they reluctantly looked on and hoped for the best.

Part of the requirement for a university academic is to undertake research and publish papers. Between you and me, I preferred teaching over research, but I had to complete my Doctor of Philosophy (PhD) degree as part of my tenure position. Therefore, I found a research topic that piqued my interest — studying the valuation and incentive effects of executive share-based payments. This involved reading company annual reports and building specialised valuation models for these instruments.

Besides teaching classes and undertaking research, I was investing on the side to boost my income. I had just over 10 years' experience investing across several sectors.

As a top-down thematic investor, I studied key events that would drive the economy and tried to determine which sectors and industries would benefit the most. I liked a good story — an investment that makes economic and logical sense. Furthermore, I believed the government stimulus programs worldwide, following the subprime crisis of 2007–09, would boost companies involved in the major construction and infrastructure boom. Therefore, I invested in property trusts, mining contractors, mining and resources, and energy companies, thinking that would lead to superior returns.

I was an avid reader of business news, focusing on the *Sydney Morning Herald* business section, Bloomberg, Reuters and the *Australian Financial Review*, which I read on my

commute home. I particularly enjoyed reading the stock picks section to see how the contributor presented their case for a particular company. In some cases, I followed their picks. You can imagine how these picks often underperformed as the smart money already profited and I was following their lead. Over time, I learned that while a market theme gaining public attention is one thing, making profits trading them is another. Not all companies benefiting from a macroeconomic or sectoral theme will necessarily deliver investment returns. Sometimes, the 'winner's curse' applies, whereby a company ends up making losses despite winning a project or a bidding war.

That was my investment strategy. I studied companies by putting the quantitative skills from my actuarial studies background to work. I reviewed the company's financial statements and management forecasts, calculated the company's ratios, and applied a rough valuation criterion to determine whether it was an attractive investment. This helped me to weigh up the balance of probabilities and the potential gains I could make.

However, I slowly realised that markets do not trade using the same metrics and criteria that I use. The market encompasses the perceptions of all its participants, not to mention their emotions. Those with more funds move the market, with many participants discarding their views to follow the herd. As such, even if my analysis turns out to be correct, the market may move differently leaving me on the wrong side of the trade. Sometimes, I have to wait much longer for things to play out before I enjoy the rewards of my conviction.

I pieced together the elements that make for a successful long-term investor. I would need to identify out-of-favour assets that are trading at deeply discounted prices. The market does not appreciate their potential but this will change eventually, causing the price to close the gap and delivering significant returns to me. I would be investing based on my conviction, rather than following the crowd. This was the essence of contrarian investing and it involved playing the long game.

I figured that my current research program and stock investing would position me well to proceed with this plan. But which market was I going to focus on?

In 2013, I found it in gold and silver...

[Catching the late train](#)

You may be expecting my journey into gold and silver to begin like a fairytale. I would jump into gold and silver as prices rose, buy a few best-performing gold and silver stocks, and deliver bonanza gains that would change my life forever.

Not quite. In fact, the opposite occurred.

In 2013, I decided to commit most of my time to gold and silver. However, as I mentioned at the start of this chapter, I was already partly invested in gold stocks. I was acquainted with gold's stellar run in the wake of the subprime crisis that rocked the world in 2008–09. Gold was one of the first assets to find a bottom in November 2008, trading at a little over US\$700 an ounce. It rose to US\$1,000/oz exactly a year after the collapse of Lehman Brothers. It continued to rally and made a record high of US\$1,921 in September 2011.

Gold's rally lit a fuse under gold stocks. I subsequently traded a few gold companies, including Dominion Mining (taken over by **Kingsgate Consolidated [ASX:KCN]**), Lihir Gold (which merged with Newcrest Mining, since acquired by **Newmont Corporation [ASX:NEM]**), **OceanaGold Corporation [TSX:OGC]**, **Perseus Mining [ASX:PRU]** and Sino Gold (acquired by **Eldorado Group [TSX:ELD]**), making modest gains on them. I was at the right place at the right time, not realising the underlying story that low inflation-adjusted interest rates (real interest rates) would boost the price of gold. I simply picked a few gold stocks because their valuation metrics appealed to me.

As the price of gold started going parabolic in mid-2011, it became the talk of the town as financial commentators regularly reported on its performance. There was also a wave of corporate activity in the sector, spurring investors to pile into gold stocks. By now, random articles popped up in my search results, promoting gold stocks as excellent investments because they could potentially multiply the gains in the price of gold. These articles pointed to the possibility of gold surpassing US\$2,000 and how that could cause gold stocks to deliver exceptional gains.

I was hoping that I could make it big with gold stocks, having missed the iron ore boom. I remembered stories of people making big profits buying companies like **Fortescue Metals Group [ASX:FMG]**, **Mineral Resources [ASX:MIN]**, etc. when iron ore rode the commodity super cycle. Therefore, I bought into the excitement — it was my chance to strike it rich with gold stocks. Having some gold stocks in my portfolio already, I increased my exposure.

In 2012, the trend turned as gold failed to break above US\$2,000, trading in the US\$1,700–1,800 range. This caused gold stocks to pull back, as some speculators decided to chase gains elsewhere. Meanwhile, the management teams of many gold mining companies retained their optimistic forecasts, and some companies merged as sentiment remained strong. To me, I took the sell-off of gold stocks as a chance to buy the dip because the financial and market ratios of some companies looked more attractive.

As 2012 came to a close, gold stocks staged one more rally. Little did I know this was a sucker's rally, because many of these companies would not trade at these levels again until some three years later. In hindsight, the smart money had begun to take profits and move on from gold stocks during 2012.

As for me, by early-2013 my holdings in four gold companies comprised about 35% of my portfolio. It was a substantial exposure.

That was why gold's tumble in mid-April affected my portfolio significantly, spurring me to do some serious digging into our financial system and gold's role in it. Now, let me continue from where I left off after my lunch with Azib.

[The hidden secrets of money and our financial system](#)

When Azib sent me the article a few days later, I dug into that report and tried to understand every detail of it. It covered the economic and policy drivers on the price of gold. It also covered gold stock valuations. As he mentioned, the price of gold was but one factor that drove the value of gold stocks. There were other factors to consider.

The article helped me understand more about the link between gold and gold stocks. It did not quite answer the burning question in my mind about how to make big profits in gold stocks. But it stoked my curiosity. I would have to search elsewhere to help me complete the puzzle.

This led me on my personal odyssey, which helped me discover so many things, some of which you will read about in this book. I trawled through the internet, reading and digesting hundreds of articles and hours of videos. Most notably, I came across Mike Maloney's documentary, 'Hidden Secrets Of Money', Tekoa Da Silva's website, BullMarketThinking.com, Peter Schiff's interviews, Don Durrett's book, *How to Invest in Gold and Silver*, and many more resources. Incidentally, Don Durrett's book and insights built my foundations into how to analyse and value gold stocks. I used his approach to refine it and cultivate my own after adapting some of the quantitative methods based on my background.

While all these sources were impressive in their own ways, this opening statement by Mike Maloney, in the first episode of 'Hidden Secrets of Money', stood out to me:

'But the world has been turned away from real money and has been fooled into using currency, a deceitful imposter that is silently stealing your two assets – your time and your freedom. Welcome to the rabbit hole.'

This statement was powerful. Money is a means to store our time. Having money gives us freedom. But false money, or currency, steals both our time and freedom because you can create it ad infinitum. It is therefore increasingly worthless.

As for the rabbit hole reference, he was not wrong about that!

There was so much to read and learn, many detours, twists and turns. The more I dug, the more I realised the level of corruption within the financial system and how destructive it was to our society. I could write a separate book on how mankind has suffered deeply from the corruption stemming from the use of fake money.

My realisation of the truth about money and currency turned into a mission — to learn about the financial system and the secret to building wealth with gold, master the necessary skills, and educate others so they can take back control of their own lives.

With any mission, its success depends on the positive impact made. And the first objective was to transform my own life, building enough wealth to allow me to spread it to others.

Let me share how the mission turned out.

[Buying into the abyss turned me into a staunch believer](#)

I began my in possibly the most challenging time...just as gold's decline accelerated. Week after week, month after month, gold stocks fell.

Still I continued. At that time, my university position paid well. To add, I was single man back then, so I could wear the losses and not feel that I was hurting those who depended on me.

By the end of June 2013, gold had dropped from US\$1,500/oz to just over US\$1,200/oz. Then the selling stopped briefly in July. In the second half of the month, some gold producers started to rise.

Had the sell-off ended? Was the coast clear and were we setting up for the rally?

By now, many gold stocks traded at less than half their peak price. The sector looked seriously battered. Drawing on my experience in other industries, I applied the benchmark valuation ranges to gold stocks and concluded these stocks were ridiculously cheap. I doubled down on gold stocks, thinking that the bounce was the signal of a rally. I even sold most of my non-gold stocks and shifted the money into gold mining companies.

I decided this was the hill to die on.

I did not do it blindly though. I pored over articles and reports, paying attention to the amount of gold each ASX-listed gold producer delivered for the year and the associated costs. I weighed up the risk-reward profile of each company. I considered the current price, its cash balance and debt, annual production and cost. I made my purchases regularly out of my fortnightly pay cheque. As an aside, I learnt the hard way that the financial and valuation ratios I had been using **DID NOT** apply to mining stocks. This method lured me into value traps, whereby a company's numbers looked good but its share price kept falling because of poor operations or other issues.

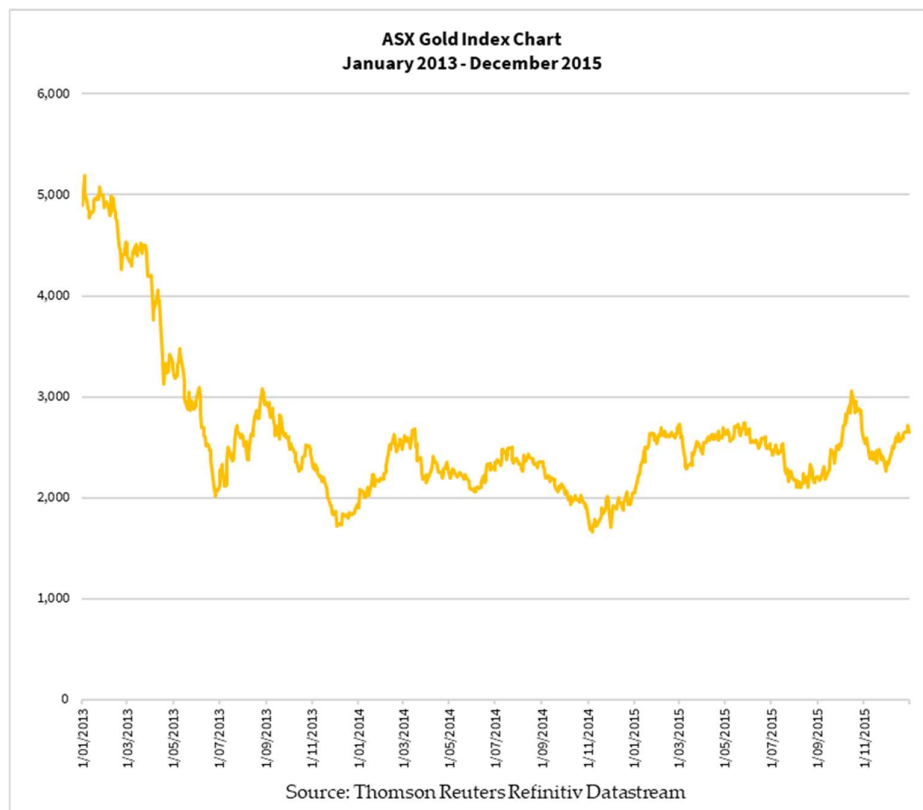
My parents were not particularly supportive when I told them what I was doing. They thought it was just another bad decision I was making. My mother would ask if I had made a net profit or loss on my decade-long foray into stocks. She knew the answer; I had been losing in the stock market.

Undeterred, I was able to persuade my father that I could turn things around with gold stocks given what was happening at the time. I even managed to get him to buy some gold stocks for his own portfolio.

Now, I would love to tell you how quickly I made back those losses...that gold stocks rallied three-fold, five-fold, fifty-fold and so on within months... So quick was the recovery that I was drowning in profits and could retire by the end of the year.

Obviously, that was not the case!

In hindsight, that was just as well...because an easy win would not have equipped me psychologically to handle the wild swings that are part of every gold price cycle. Let me show you how my gold stock portfolio experienced a savaging from July 2013 to December 2014. Here is how the ASX Gold Index performed during 2013–2015:



As you can see, gold stocks traded at depressed levels for almost two years.

My portfolio bounced on several occasions, each time spurring me to feel excited that this was the break I was waiting for. Unfortunately, it turned out to be another false rally, with the subsequent retreat taking prices to new lows. I could have thrown in the towel, calling it a day when my portfolio was down 25%, 50%, and more.

However, I believed in the potential of many of the producers I owned. They held enough cash. Those who borrowed did not have looming repayment deadlines. St Barbara was one example. It was just breaking even in its operations, but the market priced it as if it was dead in the water. Then there were other producers operating with a modest surplus that were trading at a fraction of their 2012 value. I was not going to dump these stocks, even if most of my holdings were 70% underwater.

So I kept doubling down on these companies, even as they kept falling. At times, I wondered whether my efforts were futile, like building a sandcastle on the shore amid a rising tide. But I held on. Virtually nothing was spared in this sell-off. The largest gold producer, Newcrest Mining, traded at less than \$7 in December 2013, down from \$42.66 at its peak in April 2011! **Evolution Mining [ASX:EVN]** tumbled from \$2.14 in October 2012 to as low as 43.5 cents in December 2014. As for **St Barbara Mines [ASX:SBM]**, it traded at \$2 in December 2012 when it bought Allied Gold at the top of the market, only to plummet to 7 cents exactly two years later. I first bought Allied Gold at 58 cents in July 2013 and I held it at its lows, having bought more so my average cost price was around 25 cents.

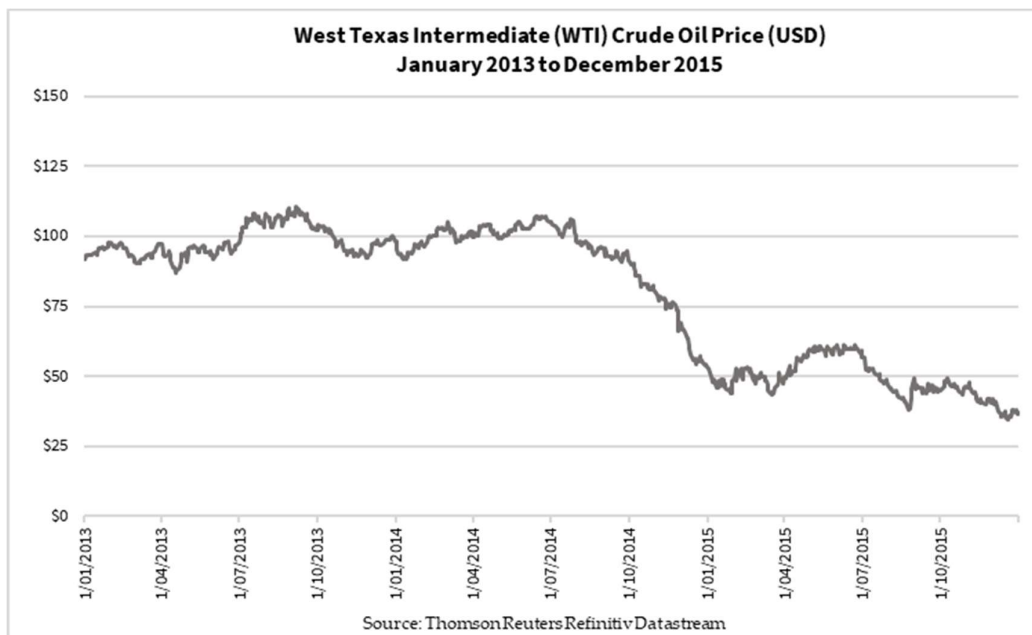
By the time these gold stocks bottomed in December 2014, my gold stock portfolio was down by more than 75% from when I started the journey in July 2013.

The darkest hour had passed, and things would look up as 2015 came. Though to be precise, the turning point came a few months before.

[The turning point and discovering a crucial link](#)

I did not blindly hold on to gold stocks as they went through their darkest days in the second half of 2014. By October 2014, I saw signs of dawn breaking that would convince me to hold on to my portfolio.

It was not in the price of gold, but rather, oil. The price of oil turned the tide for the mining industry in the second half of 2014. It almost halved within months, as you can see below:



At the time, Saudi Arabia and the OPEC nations increased output to compete against the US shale oil and Canadian oil sands industries that had grown to become a force of their own. In fact, such was the momentum of the US shale oil industry that it became a net oil exporter during the first Trump administration.

The falling price of oil turned the fortunes for gold stocks, allowing me to make progress on my mission. My research gradually led me to understand how mining companies worked. Oil played a key role in a mining company's costs and profitability. Diesel is a major input in running mining vehicles and equipment — particularly in the transportation industry. I saw that the company's net operating cashflows would increase as the price of oil dropped, and vice versa.

It was quite intuitive and simple to understand, once you realised it. Yet I noticed that few gold stock analysts incorporated this in their evaluations.

With the oil price falling sharply, I noticed a few producers started enjoying better operating margins in the 2014 September quarter. The margins improved further the following quarter. Marginal producers such as **Ramelius Resources [ASX:RMS]** generated an operating profit and its cash pile grew.

By January 2015, I was quite tapped out by then, mentally and financially. It was just as well that many gold producers were bouncing 20–50% from their bottom. This bounce gave me the courage to make a few purchases with the little spare funds I had. Looking back, though, they were among the best purchases I made. I managed to buy close to the bottom. Not all the producers staged a recovery. A few significant players — like Perseus Mining, Ramelius Resources, **Silver Lake Resources [ASX:SLR]** and St Barbara Mines — were still trading 90% lower than their 2011–12 record highs.

As 2015 progressed, the rally gained momentum. Many stocks in my portfolio started to run.

High-margin producers such as **Northern Star Resources [ASX:NST]**, Evolution Mining and **Regis Resources [ASX:RRL]** led the pack. They regained much of the losses sustained in 2013–14 during the year. Meanwhile, more than half the gold producers were in a bullish pattern, with some trading more than 50% higher than their lows in the previous bear market.

2016 was a watershed year. The bull market for gold stocks enjoyed another boost in February as the market panic pushed oil down to as low as US\$27 a barrel. Many gold producers went parabolic in the six months after. During this parabolic phase, my portfolio was rising 15–20% each month. Some of my gold producers doubled in just weeks! This rally for gold stocks peaked in late-September 2016. By then, my gold stocks portfolio rallied 600% from its lows in November 2014!

Let me summarise my portfolio performance during these three years.

I started with \$100,000 in July 2013, adding \$250,000 and withdrawing \$180,000 along the way. My gold stocks portfolio was worth \$438,000 and I owned \$117,000 worth of bullion at the end of September 2016. So \$170,000 in July 2013 turned into \$555,000 in just over two years!

My best three holdings, namely **Resolute Mining [ASX:RSG]**, St Barbara Mines and Ramelius Resources, generated more than \$300,000 in profits!

I had made some mistakes, prematurely doubling down on gold stocks in mid-2013 during the bear market. Therefore, after accounting for these mistakes, my overall portfolio returns were less illustrious than the 600% gains from bottom to top.

The common theme behind these big wins was that these companies fell over a period of two to three years, taking several months to find a bottom. I could buy these shares at heavily discounted prices, which then delivered exceptional returns when they recovered.

How mining investment legends repeat their success

I believe my journey into building wealth with gold stocks is not unique. I followed the strategy adopted by mining investment legends such as Rick Rule, Eric Sprott, Brien Lundin and Pierre Lassonde. They made their fortunes by choosing the right stocks, sticking with them for decades, and profiting off the booms and busts of the gold price cycle.

They focused on buying cheap companies with potential rather than chasing the momentum of the crowd, which is fixated on buying what is hot. They bought when others shunned these companies, repeating this to accumulate a vast amount of wealth. It sounds easy when I write about it, but my lived experience of holding on to stocks at the bottom of the cycle tells me otherwise.

Now, I want to put a caveat on the successes I've experienced so far in my journey.

Not all my gold stock picks were profitable in the first bull run.

Some — like Perseus Mining, **Red 5 [ASX:RED]** and Silver Lake Resources — rallied a modest amount during this period before giving back most of their gains. They all had their day in the 2019–2020 bull market. Others — like **Doray Minerals [ASX:DRM]**, **Kingsrose Mining [ASX:KRM]** and Kingsgate Consolidated — for some reason, encountered unfavourable events that delivered me punishing losses.

But all up, the companies that delivered me positive gains far outweighed those where I lost.

This is what the gold price cycle can do to gold stocks: multiply the rises and falls. The key is knowing what to look for when you pick the companies to add to your portfolio. I will cover this in Chapter 8.

Chapter summary

To sum up, I became a believer in precious metals, living through the tribulation of a severe bear market in gold and emerging from it wealthier. I acted with conviction to add to my holdings as things turned for the worse.

While I worked hard to research which companies offered the better risk-reward outcomes, my success was a combination of my tenacity in standing by my convictions, selecting the right companies, and an element of luck. Then there is timing and patience. I sat through the gold price cycle and let things turn around. I doubled down on my holdings instead of cutting my losses, especially when oil plummeted and gold stocks continued to drop in the second half of 2014. Those who followed the crowd to sell out would have missed the big rewards that followed.

My experience revealed to me that adversity is a great teacher when you invest in cyclical investments like gold stocks. It forces you to dig deeper to expand your knowledge and tests your discipline. You also learn to discern useful information from the noise and emotions. I will cover all this in Chapters 12 and 13.

As I wrap up this chapter detailing my journey into gold and silver, here are some key takeaways:

- By understanding how the financial system works, you will want to buy gold to protect your purchasing power.
- Investing in gold mining stocks could help you build your wealth as they can offer you potentially outperforming gains. But it comes with its risks.
- Understanding the gold price cycle and the drivers of value for gold stocks is critical in increasing your chance of success in generating significant returns.
- Even if you research thoroughly, your success will come from exercising patience and getting lucky. Sometimes, events can come without warning and act in your favour.
- Your gains will grow long term as you master the gold price cycle and invest with the flow. It is a lifelong learning process.

In the next chapter, I will introduce you to our monetary system and explain the difference between money and currency. I will also explore how a collective lack of awareness of this difference has negatively impacted society.