Gold & Silver - Vault, Levy, Dig, Fund, or Find?

Perspectives: January 20th, 2026

After years of neglect by many market participants, precious metals are getting attention again. There are five primary exposure mechanisms, and unpacking them offers insights.

Physical Bullion [Vault]

Jewellery, coins, or bars of gold and silver can be bought and sold in any denominations, but have to be transported and stored safely, and insured – which costs money and needs to be administered. Working with a reputable scale operator, transaction commissions and trading spreads are cost effective.

Exchange traded bullion ETF's and Physical Trusts can be bought and sold in any denominations and cost effectively, while transport, storage, and insurance are all administered inside these products – at a fee.

In terms of valuation, physical bullion does not generate any positive free cash flows for its owners. In fact, given its various costs, it produces a *negative* yield to its owners. It is therefore impossible to value using traditional discounted free cash flow valuation methods.

In respect to long-term price cycles, gold and silver experienced three strong bull market runs over the past 50 years: (a) 1971-1980, (b) 1999-2011, and (c) 2015 to the present day. It remains to be seen [*in hindsight*] if 2026 will prove to have been a peak event similar to what occurred in 1980 and in 2011. It is also notable to compare their duration with each other.

Mining Royalty Stocks [Levy]

A number of listed stocks charge a fee for providing specific services to the precious metals industries. Some receive a preferential production volume offtake or percentage of revenue-share in exchange for providing development or bridging financing. Others charge management fees to operate niche investment products such as ETF's and Commodity Trusts.

Our case studies of their economics show that those with sufficient scale can deliver excellent business and investment returns to their long-term shareholders.

Mining Stocks [Dig]

There are a number and variety of gold and silver mining companies currently in production that are listed on various global stock exchanges. They can be further classified as large, medium, and small, and they operate across a wide range of their industry cost curves.

Focused silver mining stocks are rare to find because silver is typically [*over 72% of the time*] a byproduct of mining other commodities such as lead, zinc, copper, and gold. The few listed focused silver miners typically operate with a single mine on a single orebody in a single country in Central & Latin America – significantly increasing key risk parameters such as geology, climate, mining accidents, and sociopolitical considerations.

All mining, and especially underground mining, is incredibly capital-intensive and extraordinarily complex in literally every respect. Of specific consideration is the very nature of mining, in that they are constantly busy removing parts of a finite amount of their proven reserves. To replace their reserves costs a lot of money. The industry's corporate graveyard is filled with companies that were once in profitable production but that eventually went bankrupt as they ran out of money or reserves.

Mining Development Stocks [Fund]

Some listed companies exist in-between two life phases – having found or acquired mining rights to an orebody that is deemed economically viable, and actually getting it into full production. Think of these as 'underfunded & preconstructed'. They always tell a great story while knowingly walking a tightrope that can be extremely dangerous for their shareholders.

Cryptic realities they face include how hard it can be and how long it can take to raise equity or debt funding, how expensive and dilutive such funding can be, experiencing delays in getting environmental approvals, community buy-in, and regulatory licences, and taking much longer and costing a lot more than planned to build the total mine infrastructure and bring it to full production.

Mining Exploration Stocks [Find]

Last but not least there are also listed companies focused exclusively on finding new orebodies that might be economically viable – depending on any number of key assumptions. They typically utilize geological techniques such as hyperspectral imaging, magnetics, and induced polarization, but in essence it all eventually boils down to drilling samples – which costs a lot of money with extremely low odds of success. The nicest way I can describe these type of stocks is as a moonshot.

Further Evidence

Considering these three last stock categories together [Mine / Fund / Find], almost without exception our case studies on their economics show they do *not* deliver any real business or shareholder value for their long-term owners. In just two isolated cases we could identify, **Mark Bristow** at **Randgold Resources** (1995-2019) and **Srinivasan Venkatakrishnan** at **Anglogold** (2013-2018), these CEO's led the delivery of meaningful long-term value-creating results on a per-share basis to shareholders during their tenures.

Long ago, a swashbuckling CEO of a major gold mining firm grew visibly irritated with my persistent [and frankly naïve] questions about long-term business strategy. He finally cut me off with "*The only reason people buy gold stocks is because, every once in a while, they go up one helluva lot*"

That CEO was not trying to help me, in fact quite the opposite. Nonetheless, he taught me a valuable lesson because he dropped all pretences and was just being brutally honest, accurately informed, and ultimately also correct.

Our work continues...

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