

## Van Eck Launches Junior Gold Miners ETF (GDXJ)

The Junior Gold Miners ETF seeks to replicate as closely as possible, before fees and expenses, the price and yield performance of the Market Vectors Junior Gold Miners Index.

The Index provides exposure to a global universe of publicly traded small- and medium-capitalization companies that generate at least 50% of their revenues from gold and/or silver mining, hold real property that has the potential to produce at least 50% of the company's revenue from gold or silver mining when developed, or primarily invest in gold or silver. The Fund will normally invest at least 80% of its total assets in companies that are involved in the gold mining industry. As such, the Fund is subject to, among others the risks of investing in international equities and small- and mid-cap mining companies. Many companies may not have begun to generate material revenues and operate at a loss, contributing to greater volatility, lower trading volume and less liquidity than larger companies.

### The benefits of GDXJ's underlying index:


Small-Cap Gold Miners with weighted average market capitalization of \$850 million dollars.

Early Stage Companies as many small-cap miners are in exploratory or early development phase—high risk but potential for high growth and merger and acquisition activity.

Global Coverage of junior miners listed in Australia, Canada, China, South Africa, the United Kingdom and the United States which own gold properties around the world.

A compelling case can be made for investment in precious metals juniors:

[http://www.vaneck.com/sld/vaneck/offerings/brochures/GDXJ\\_Case\\_Investment.pdf](http://www.vaneck.com/sld/vaneck/offerings/brochures/GDXJ_Case_Investment.pdf)

Top 10 Fund Holdings		Download Full Holdings 	
As of November 13, 2009			
TOTAL CONSTITUENTS: 38			
Holding	Shares	Market Value (USD)	% of net assets
Coeur d'Alene Mines Corp. <b>CDE US</b>	273,168	5,851,259	6.43%
New Gold Inc <b>NGD CN</b>	1,205,568	4,998,066	5.49%
Silver Standard Resources Inc <b>SSRI US</b>	247,248	4,897,983	5.38%
Hecla Mining Co <b>HL US</b>	850,968	4,544,169	4.99%
Gammon Gold Inc <b>GRS US</b>	427,608	4,434,295	4.87%
Alamos Gold Inc <b>AGI CN</b>	386,928	4,089,618	4.49%
Semafo Inc <b>SMF CN</b>	901,440	3,565,381	3.92%
Silvercorp Metals Inc <b>SYM CN</b>	564,552	3,400,494	3.74%
European Goldfields Ltd <b>EGU CN</b>	456,480	3,114,984	3.42%
Golden Star Resources Ltd <b>GSS US</b>	842,832	2,907,770	3.19%

Fund Holdings as of 2009/11/13					
Number	Holding	Ticker	Shares	Market Value	% of net assets
1	Coeur d'Alene Mines Corp.	CDE US	273,168	\$5,851,258.56	6.43%
2	New Gold Inc	NGD CN	1,205,568	\$4,998,066.05	5.49%
3	Silver Standard Resources Inc	SSRI US	247,248	\$4,897,982.88	5.38%
4	Hecla Mining Co	HL US	850,968	\$4,544,169.12	4.99%
5	Gammon Gold Inc	GRS US	427,608	\$4,434,294.96	4.87%
6	Alamos Gold Inc	AGI CN	386,928	\$4,089,617.84	4.49%
7	Semafo Inc	SMF CN	901,440	\$3,565,380.99	3.92%
8	Silvercorp Metals Inc	SVM CN	564,552	\$3,400,494.30	3.74%
9	European Goldfields Ltd	EGU CN	456,480	\$3,114,983.85	3.42%
10	Golden Star Resources Ltd	GSS US	842,832	\$2,907,770.40	3.19%
11	Northgate Minerals Corp	NXG US	926,208	\$2,797,148.16	3.07%
12	Kingsgate Consolidated Ltd	KCN AU	312,048	\$2,744,941.85	3.02%
13	Jaguar Mining Inc	JAG CN	250,560	\$2,700,818.30	2.97%
14	Andean Resources Ltd	AND CN	1,101,528	\$2,593,065.68	2.85%
15	Aurizon Mines Ltd	ARZ CN	539,784	\$2,587,670.74	2.84%
16	San Gold Corp	SGR CN	892,440	\$2,577,167.69	2.83%
17	Novagold Resources Inc	NG US	470,088	\$2,477,363.76	2.72%
18	Gabriel Resources Ltd	GBU CN	707,328	\$2,238,102.42	2.46%
19	Minefinders Corp	MFN US	209,088	\$2,111,788.80	2.32%
20	Allied Nevada Gold Corp	ANV US	182,664	\$2,087,849.52	2.29%
21	Rubicon Minerals Corp	RMX CN	476,352	\$2,042,967.83	2.24%
22	Ventana Gold Corp	VEN CN	182,592	\$2,018,648.75	2.22%
23	Great Basin Gold Ltd	GBG CN	1,208,736	\$1,866,240.00	2.05%
24	Lake Shore Gold Corp	LSG CN	444,024	\$1,760,438.26	1.93%
25	St Barbara Ltd	SBM AU	5,717,880	\$1,687,302.96	1.85%
26	Avoca Resources Ltd	AVO AU	932,760	\$1,636,719.52	1.80%
27	Fronteer Development Group Inc	FRG US	379,728	\$1,591,060.32	1.75%
28	Kirkland Lake Gold Inc	KGI CN	185,688	\$1,596,288.55	1.75%
29	Romarco Minerals Inc	R CN	1,176,840	\$1,570,241.60	1.72%
30	Medusa Mining Ltd	MML AU	373,176	\$1,370,877.03	1.51%
31	Detour Gold Corp	DGC CN	99,288	\$1,348,443.17	1.48%
32	Gold Wheaton Gold Corp	GLW CN	3,647,808	\$1,060,358.77	1.16%
33	Dominion Mining Ltd	DOM AU	265,248	\$967,386.80	1.06%
34	Real Gold Mining Ltd	246 HK	612,000	\$912,749.78	1.00%
35	Colossus Minerals Inc	CSI CN	178,704	\$900,971.32	0.99%
36	U S Gold Corp	UXG US	297,000	\$825,660.00	0.91%
37	Avocet Mining Plc	AVM LN	468,792	\$744,516.59	0.82%
38	Lingbao Gold Co Ltd-H	3330 HK	1,008,000	\$390,946.70	0.43%

Note the GDXJ index has SSRI, HL, NXG, MFN, RBY and FRG as components. Companies formerly covered in the Pot o' Gold include UXG, GSS and NG.

The top holding, CDE, is not a good representation of the precious metals arena as its San Bartolome mine is located in Bolivia, a country very unfriendly to mining. The company has continually disappointed shareholders with terrible operating and financial results with a management team that is inept at best.

The next highest weighted company in the index, New Gold, has significant gold hedges that will hinder financial performance. From Note 11. (a), page 22 of New Gold financials dated 11/3/2009:

## 11. Derivative instruments

### (a) Gold hedging contracts

“Under the terms of the term loan facility (Note 10 (c)), WMMI was required, as a condition precedent to drawdown the loan, to enter into a gold hedging program acceptable to the banking syndicate. As such, the Company executed gold forward sales contracts for 429,000 ounces of gold at a price of \$801 per ounce. The hedging contracts represent a commitment of 5,500 ounces per month for 78 months that commenced July 2008 with the last commitment deliverable in December 2014. The Company settles these contracts, at the Company's option, by physical delivery of gold or on a net financial settlement basis. As at September 30, 2009, the Company had remaining gold forward sales contracts for 346,500 ounces of gold at a price of \$801 per ounce at a remaining commitment of 5,500 ounces per month for 63 months. On July 1, 2009, the Company's gold hedging contracts were designated as cash flow hedges. Prospective and retrospective hedge effectiveness is assessed on these hedges using a hypothetical derivative method. The hypothetical derivative assessment involves comparing the effect of theoretical shifts in forward gold prices on the fair value of both the actual hedging derivative and a hypothetical derivative. The retrospective assessment involves comparing the effect of historic changes in gold prices each period on the fair value of both the actual and hypothetical derivative. The effective portion of the gold contracts is recorded in other comprehensive income until the forecasted gold sale impacts earnings. Where applicable, the fair value of the derivative has been adjusted to account for the Company's credit risk.”

At current gold prices, New Gold will suffer to the tune of \$ 1,732,500 per month, \$ 5,197,500 per quarter, from its gold hedges (5,500 ounces times difference of current gold price of \$ 1,116 less contracted hedge/forward price of \$ 801). If gold continues its present bull run, the damage will begin to be much more severe. Note the losses from gold contracts in the current quarterly financials total \$ 23,447,000.

## New Gold Inc.

### Consolidated statements of comprehensive loss Three and nine month periods ended September 30

(Expressed in thousands of U.S. dollars)  
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Net earnings (loss)</b>	<b>4,101</b>	<b>(148,853)</b>	<b>(186,666)</b>	<b>(143,814)</b>
Other comprehensive loss				
Unrealized losses on mark-to-market of gold contracts	(23,447)	-	(23,447)	-
Unrealized losses on mark-to-market of fuel contracts	(724)	-	(724)	-
Future income tax	9,427	-	9,427	-
<b>Total other comprehensive loss</b>	<b>(14,744)</b>	<b>-</b>	<b>(14,744)</b>	<b>-</b>
<b>Total comprehensive loss</b>	<b>(10,643)</b>	<b>(148,853)</b>	<b>(201,410)</b>	<b>(143,814)</b>

“As a result of the increase in the spot price of gold from \$935 per ounce to \$996 per ounce between June 30 and September 30, 2009, the Mesquite Mine recognized \$23.4 million of pre-tax unrealized losses in the mark-to-market of remaining contracts within other comprehensive income.” MD&A, page 16

Source: sedar.com

<http://www.sedar.com/DisplayCompanyDocuments.do?lang=EN&issuerNo=00004818>

## **Selected information from the GDXJ prospectus follows.**

The benefits of ETFs versus mutual funds are clear by this statement in the prospectus:

Unlike many conventional mutual funds which are only bought and sold at closing NAVs, the Shares have been designed to be tradable in a secondary market on an intraday basis and to be created and redeemed primarily in-kind in Creation Units at each day's market close. These arrangements are designed to protect ongoing shareholders from adverse effects on the Fund's portfolio that could arise from frequent cash purchase and redemption transactions that affect the NAV of the Fund. Moreover, in contrast to conventional mutual funds where frequent redemptions can have an adverse tax impact on taxable shareholders because of the need to sell portfolio securities which, in turn, may generate taxable gain, the in-kind redemption mechanism of the Fund, to the extent used, generally is not expected to lead to a tax event for shareholders.

The Fund will normally invest at least 80% of its total assets in securities that comprise the Fund's benchmark index. The Fund will normally invest at least 80% of its total assets in companies that are involved in the gold mining industry.

There also may be instances in which the Adviser may choose to overweight a security in the Junior Gold Miners Index, purchase securities not in the Junior Gold Miners Index that the Adviser believes are appropriate to substitute for certain securities in the Junior Gold Miners Index or utilize various combinations of other available investment techniques in seeking to replicate as closely as possible, before fees and expenses, the price and yield performance of the Junior Gold Miners Index.

The Fund may also utilize derivative instruments, such as swaps, options, warrants, futures contracts, currency forwards (and convertible securities and structured notes), and participation notes to seek performance that corresponds to the Junior Gold Miners Index.

The Fund may borrow money from a bank up to a limit of one third of the market value of its assets for temporary or emergency purposes. To the extent that the Fund borrows money, it will be leveraged; at such times, the Fund will appreciate or depreciate in value more rapidly than its benchmark, the Junior Gold Miners Index.

### Risk of Investing in Derivatives.

Derivatives are financial instruments, such as swaps, options, warrants, futures contracts and currency forwards, whose values are based on the value of one or more indicators, such as a security, asset, currency, interest rate, or index. The Fund's use of derivatives involves risks different from, and possibly greater than, the risks associated with investing directly in securities and other more traditional investments. Moreover, although the value of a derivative is based on an underlying indicator, a derivative does not carry the same rights as would be the case if the Fund invested directly in the underlying securities. Derivatives are subject to a number of risks, such as potential changes in value in response to market developments or as a result of the counterparty's credit quality and the risk that a derivative transaction may not have the effect the Adviser anticipated. Derivatives also involve the risk of mispricing or improper valuation and the risk that changes in the value of a derivative may not correlate perfectly with the underlying indicator. Derivative transactions can create investment leverage, may be highly volatile, and the Fund could lose more than the amount it invests. Many derivative transactions are entered into "over the counter" (not on an exchange or contract market); as a result, the value of such a derivative transaction will depend on the ability and the willingness of the Fund's counterparty to perform its obligations under the transaction. If a counterparty were to default on its obligations, the Fund's contractual remedies against such counterparty may be subject to bankruptcy and insolvency laws, which could affect the Fund's rights as a creditor (e.g., the Fund may not receive the net amount of payments that it is contractually entitled to receive). A liquid secondary market may not always exist for the Fund's derivative positions at any time.

### Leverage Risk.

To the extent that the Fund borrows money, it will be leveraged. Leveraging generally exaggerates the effect on NAV of any increase or decrease in the market value of the Fund's portfolio securities.

The Fund may lend its portfolio securities to brokers, dealers and other financial institutions desiring to borrow securities to complete transactions and for other purposes. In connection with such loans, the Fund receives liquid collateral equal to at least 102% of the value of the portfolio securities being loaned. This collateral is marked-to-market on a daily basis. Although the Fund will receive collateral in connection with all loans of its securities holdings, the Fund would be exposed to a risk of loss should a borrower default on its obligation to return the borrowed securities (e.g., the loaned securities may have appreciated beyond the value of the collateral held by the Fund). In addition, the Fund will bear the risk of loss of any cash collateral that it invests.

[http://www.vaneck.com/sld/vaneck//offerings/prospectuses/GDXJ\\_Prospectus.pdf](http://www.vaneck.com/sld/vaneck//offerings/prospectuses/GDXJ_Prospectus.pdf)

<http://www.vaneck.com/index.cfm?cat=3192&cGroup=ETF&tkr=GDXJ&LN=3-01>

### **Author's summary and review:**

GDXJ will give greater exposure to the precious metals junior mining sector. That is its only favorable attribute. Its top two companies, CDE and NGD, make up almost 12 % of the index. As noted, neither company is recommended to investors seeking to maximize their returns in the precious metals arena. Silvercorp, at 3.74 % of the index, is not recommended as its primary operations are in China, a communist country. Since these companies alone represent close to 16 % of the index value (15.66 %), GDXJ is not recommended as truly representative of the best precious metals companies. As the prospectus notes, exposure to derivatives and share lending can also expose the precious metals investor to undue risk. Pot o' Gold subscribers already have coverage on six companies in GDXJ - SSRI, HL, NXG, MFN, RBY and FRG – and control the investments in these at their discretion.

*What, Cramer didn't tell you about this in his recent pump? Such a surprise !*

### **The author does not recommend investment in GDXJ.**

A better index of companies is the McEwen Junior Gold Index. Current subscribers will receive the Prospector's Pan by the end of this month, providing company coverage that will give investors maximum exposure to increases in precious metals prices with minimum political and derivative risk.

<http://www.mcewencapital.com/>

Prepared by Peter Montgomery  
Editor, Pot o' Gold, Optune, Prospector's Pan, TradeSheet

[www.hondoazul.com](http://www.hondoazul.com)

[sevenmilecapital@msn.com](mailto:sevenmilecapital@msn.com)