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Gold, at a Discount? (Yes, Through a Closed-End Fund)

A gold and silver closed-end fund, now in Sprott's hands, was up nearly 17% in 2019

By Nick Ravo

January 5, 2020 10:01 pm ET



After changing hands, the now-named Sprott Gold & Silver Trust holds nearly \$3 billion in the precious metals.

Photo: Shannon Stapleton/Reuters

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Gold and silver are again in an upswing, and one of the smartest ways to own the precious metals might be to purchase shares in a closed-end fund trading at a discount to its net asset value, and invested in the physical assets—not mining stocks, futures contracts or options.

For years, the Central Fund of Canada had been the largest of a minuscule number of closed-end funds investing in gold and silver bullion. Sprott Asset Management, a global asset manager based in Toronto, acquired the fund last year, however, and it is now named Sprott Physical Gold & Silver Trust (CEF).

Despite the change of hands, the fund's investment mission remains the same. As of Nov. 30, it held 1,273,833 ounces of gold and 57,509,187 ounces of silver along with a tiny percentage of cash, for a total market value of US\$2.97 billion. The Royal Canadian Mint, a federal crown corporation of the government of Canada, holds the metals in custody.

CEF trades on the New York Stock Exchange's Arca exchange at \$14.88, a 3.65% discount, as of Jan. 2, to its NAV of \$15.32; the discount has been as much as 5% in recent years. The fund's total return for last year was 16.9%.

Besides selling their shares in the market, investors with at least 100,000 shares also can redeem them for gold and silver bullion.

The fund may offer a potential tax advantage for certain noncorporate U.S. investors, too, as gains realized on share sales can be taxed, under the Passive Foreign Investment Company Act, at a lower capital-gains rate, albeit with extra paperwork.

CEF trades on the Toronto Stock Exchange (CEF.U in U.S. dollars and CEF in Canadian dollars) as well as in New York. But home traders who think like arbitragers and see an opportunity between the currencies will find that computers, usually, close discrepancies in a nanosecond.

It's also not a slam-dunk to go short on gold futures, options or a gold ETF, then go long on CEF and wait for the gap to close. As has often been said about market bubbles and inefficiencies, they can stay irrational longer than you can stay solvent.

Mr. Ravo is a writer in Seattle.

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Sprott Physical Gold and Silver Trust is generally exposed to multiple risks that have been both identified and described in the Management Information Circular. Please refer to the Management Information Circular for a description of these risks.

Past performance is not an indication of future results. The information provided is general in nature and is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering or tax, legal, accounting or professional advice. Readers should consult with their own accountants and/or lawyers for advice on the specific circumstances before taking any action. Sprott Asset Management LP is the investment manager to Sprott Physical Gold and Silver Trust (the "Trust"). Important information about the Trust, including the investment objectives and strategies, applicable management fees, and expenses, is contained in the Management Information Circular. Please read the document carefully before investing. There are ongoing fees and expenses associated with owning units of a Trust. The Trust must prepare disclosure documents that contain key information about the Trust. You can find more detailed information about the Trust in these documents. Investment funds are not guaranteed, their values change frequently. This communication does not constitute an offer to sell or solicitation to purchase securities of the Trust. The information contained herein does not constitute an offer or solicitation to anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Sprott Asset Management LP. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. The author's opinion may be subject to change without notice.



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