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The Investment Case for Junior Gold Miners

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- ▶ PORTFOLIO BENEFITS

This report is not intended to be a forecast of future events, a guarantee of future results or investment advice. Current market conditions may not continue. ***Past performance is no guarantee of future results.***

Gold and silver-related investments are subject to risks including bullion price volatility, changes in world political developments, competitive pressures and risks associated with foreign investments. In times of stable economic growth, the value of gold, silver and other precious metals may be adversely affected. Mining companies are subject to elevated risks, which include, among others, competitive pressures, commodity and currency price fluctuations, and adverse governmental or environmental regulations. In particular, small and mid-cap mining companies may be subject to additional risks including inability to commence production and generate material revenues, significant expenditures and inability to secure financing, which may cause such companies to operate at a loss, greater volatility, lower trading volume and less liquidity than larger companies. Investors should be willing to accept a high degree of volatility and the potential of significant loss.

Please note that Van Eck Securities Corporation offers the Market Vectors Junior Gold Miners ETF (the "Fund") that invests in the asset class included in this research report. This material must be accompanied or preceded by a prospectus. An investor should consider the Fund's investment objective, risks, and charges and expenses carefully before investing. The prospectus contains this and other information. Please read it carefully before investing.

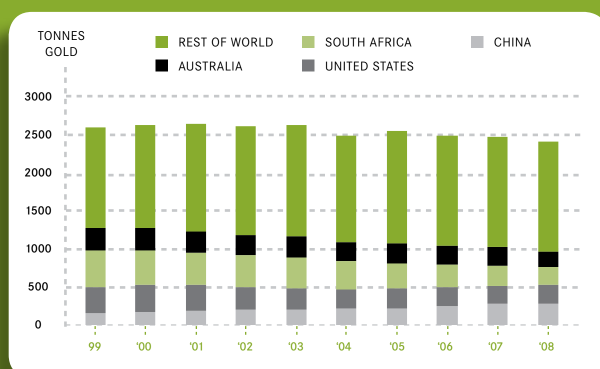
PHOTO: *Underground worker at Northgate Minerals' Stawell Gold mine*

A Dynamic Industry Segment

A dynamic and important subset of the global gold-mining industry is a group of companies known as "juniors". These are small- to medium-size market capitalization companies that are generally actively engaged in the development of new sources of gold either through greenfields exploration or the use of new geologic models to prospect for gold in over-looked or abandoned properties. For investors, juniors may offer characteristics similar to an investment in venture capital—early stage, high risk, but with a potential for high growth.

While there is no strict definition of what constitutes a junior, they generally have market capitalizations of up to $1.5 billion and/or production levels of less than 300,000 oz/yr. Juniors can be at different stages of development—some operate small-scale mines; some are developing large-scale operations, while others are in the process of defining gold or silver orebodies through drilling. Many may not even be in the production phase yet. They tend to not have the operating track record of the larger producers and there are often uncertainties surrounding the size and potential of their properties. These features increase the risk associated with these companies and the sensitivity of a junior's business to gold and equity markets.

Figure 1 Global Mine Production 1999-2008



Source: 2

Purveyors of Supply

A profitable investment in a junior is highly dependent upon a wide range of factors including, but not limited to, new discoveries and their ability to develop properties as well as on the general trend in the price of gold. As the price of gold is primarily a function of supply and demand, the prospects for future global gold production and the long-term outlook for gold demand are also important factors in a junior's success.

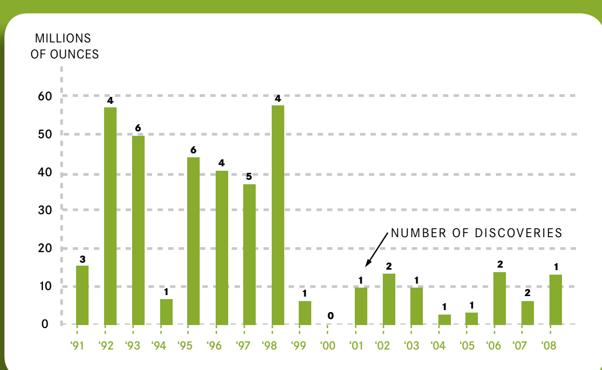
The increasing difficulties of finding new gold deposits have left some large gold producers unable to maintain production levels. As **FIGURE 1** illustrates, global gold production peaked in 2003 and as of year-end 2008, declined in each of the preceding three years. Further, while the rate of major new gold discoveries has dropped off markedly since 1998, **FIGURE 2,** much of the new found production has come from junior mining companies. In fact, in some countries the smaller miners are the only ones that take on any commercial exploration. These factors can provide juniors with attractive projects the potential to become a source of new production for larger operators which may view them as takeover targets in which the acquirer may pay a premium.

Beneficiary of Demand

An environment where there is strong gold demand could be beneficial for those juniors that have begun producing gold or have good prospects for doing so in the near future. According to the World Gold Council, demand for gold comes from three main sources: its use for jewelry, industrial and dental applications, and for investment purposes.[4] Gold demand for jewelry and industrial use has declined marginally as the increasing price of gold and a worldwide economic recession have caused consumers and businesses to cut back on spending. Conversely, in 2008 investment demand for gold jumped noticeably for those same reasons and has been possibly helped by the introduction of new investment vehicles that allow investors relatively easy access to gold bullion.[5]

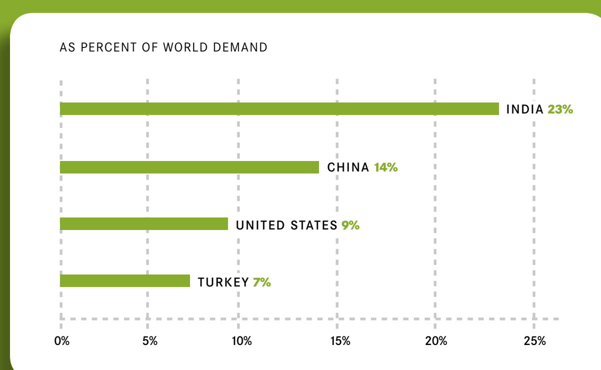
It is notable that four countries currently account for over 50% of global gold demand, **FIGURE 3**—India, China, the United States and Turkey.[5] Of these four, India and China are high-growth emerging market countries with an increasing level of development and industrialization, large populations and a rising consumer class. As world economies recover, jewelry and industrial demand for gold could rise in tandem.

Figure 2 Gold Industry Major Discoveries



Source: 3

Figure 3 Consumer Demand in Selected Countries



Source: 2, 5

Investment demand for gold has been strong in light of the financial crisis primarily because gold has historically been viewed as offering refuge to investors in time of economic crises. In an effort to combat the financial crisis of 2008, many countries have implemented substantial economic stimulus plans to spur spending and growth. One of the potential knock-on effects of these monetary stimulus measures is the potential for inflation. In inflationary periods, gold has historically been viewed as a store of value, **FIGURE 4,** and in such a case, an inflationary environment could potentially support the continued investment demand for gold.

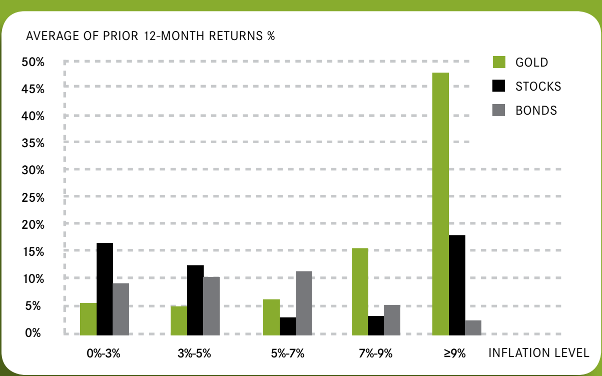
Prospecting for Growth

Juniors operate around the globe—including Canada, the United States, Australia, China and Africa. Each has its own unique set of circumstances and varying cost structures. It can be difficult for investors to evaluate and select companies that are successful not only in discovering but also profitably developing new sources of gold. In addition, the risks associated with an investment in juniors are high.

The geologic and financial landscape has simply become tougher for mining companies. Mining requires capital and in an environment where there is a great deal of market uncertainty and access to capital is limited, some junior miners may not be able to get the development funding they need. Thus, among other risks, the share price of individual juniors may be highly volatile.

An alternative approach to investing in individual juniors may be to invest in an ETF that seeks to track an index that provides exposure to a basket of juniors. This may allow investors to diversify while maintaining exposure to the market dynamics typical of juniors. Such a strategy can provide a way to complement gold bullion or large-cap gold miner holdings with exposure to juniors that have the potential to grow through exploration success, sustainable mine development, or merger and acquisitions activity.

Figure 4 Inflation and Asset Returns 1976–2008



Source: Calculated by Van Eck with data from Bloomberg. Gold represented by gold spot price $/oz; stocks represented by the S&P 500® Index; bonds represented by BarCap U.S. Aggregate Bond Index.

LEFT: *This chart is for illustrative purposes only. Historical information is not indicative of future results; current data may differ from data quoted. Indices listed are unmanaged and are not securities in which investments can be made. See below for brief description of each index.*

S&P® 500 Index is calculated with dividends reinvested. The Index consists of 500 widely held common stocks covering industrial, utility, financial and transportation sectors.

Barclays Capital U.S. Aggregate Bond Index is a market capitalization-weighted index representing most U.S. traded investment grade bonds.

The index comprises government securities, mortgage-backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market.

References

Unless otherwise indicated, the statements in this report are the result of Van Eck Global Research and reflect the opinions of Van Eck Global.

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4 World Gold Council, invest.gold.org/sites/en/why_gold/demand_and_supply/

5 Gold Demand Trends, World Gold Council, May 2009

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