Diversifying with Gold and Silver: Why Miners Amplify Opportunity

In the institutional investor's world, diversification is not a slogan but an ongoing pursuit. While new strategies may come and go, some diversifiers have stood the test of centuries: gold and silver. For Eric Strand, founder of precious metals boutique AuAg Funds, the case is straightforward: "Gold offers the perfect diversification." Other metals, he adds, also bring attractive diversification characteristics. "We like gold, we like copper, but we actually love silver because of its dual demand."

Gold: Perfect Diversification

"Gold offers the perfect diversification," reiterates Strand, noting that its strength from a portfolio perspective stems from its near-zero correlation with the S&P 500. "Anything with a correlation between minus 0.3 and plus 0.3 is ideal for diversification, and gold sits exactly at zero," he adds. Equally important, he argues, is that gold carries no counterparty risk. "Some say gold is uninteresting because it doesn't pay interest," Strand notes. "That's precisely what defines an asset without counterparty risk."

Instead of focusing on the gold price in U.S. dollars and interpreting its movements as volatility, Strand flips the perspective. "Gold is just gold," argues Strand, suggesting that what actually fluctuates is the value of the currency measured against it. "You can bury a piece of gold and dig it up 5,000 years later, it looks the same," he adds. "Gold is gold; it's the fiat currencies that lose value and it's the fiat currencies that are volatile."

He sees this as part of a long-running structural trend. "This megatrend started in 1971," he says, referring to the end of the Bretton Woods system. "Since then, the U.S. dollar has lost roughly 99 percent of its value. And weaker currencies, like the Swedish krona, have lost about 50 percent against the dollar over the same period." And the problem, according to Strand, is that "even after you've lost 99 percent, you can lose another 99 percent. There's no natural limit. That's monetary inflation."

Strand notes that many market participants see gold primarily as a hedge for moments when "something bad happens in the world, such as a war or a financial crisis." While he agrees that gold provides protection in such scenarios, he stresses that these qualities ultimately stem from its lack of counterparty risk. He also emphasizes that gold's role is not limited to crisis periods. "Gold acts as protection, but it also has good return potential in a rising stock market," he says, arguing that investors often underestimate its ability to perform in bullish market environments.

Recent shifts in institutional thinking support his view. Strand points to Morgan Stanley's suggestion that the traditional "60/40" equity-bond mix is evolving into a "60/20/20" structure, with 20 percent allocated to gold. For him, this is simply a high-profile affirmation of a belief he has held for years.

Silver's Dual Role

While bullish on gold and positive on copper, Strand's enthusiasm peaks with silver. Like gold, silver serves as a hedge and store of value, yet it also benefits from strong and growing industrial demand. This combination gives silver what Strand describes as a uniquely compelling profile, one that blends gold's defensive qualities with the growth dynamics of a high-tech industrial metal.

"Silver is the metal that has been used as money for the longest period in human history," he notes. "It's actually been the currency of choice for far longer than gold." Its industrial importance makes the case even stronger. "Silver conducts electricity and heat better than any other metal," Strand explains. "You use it in everything high-tech. When silver is too expensive, you switch to copper, but when you need the best performance, you use silver." From electronics to electric vehicles, silver is ubiquitous. "Every computer, every TV, every mobile phone, every car needs silver."

Gold surpassed $4,000 a troy ounce for the first time in October, while silver reached a new record high of $54.48 a troy ounce in mid-November, exceeding the previous all-time high set just a week earlier that broke a 14-years-old price record. From an investment perspective, Strand finds silver's current supply-demand dynamics particularly attractive.

Global silver supply has been in a structural deficit for several years. Signs of tightness are especially visible in the physical market, including London, where a large portion of available silver is locked up in ETFs and long-term holdings, reducing freely deliverable supply. "When you get a physical shortage in a commodity that the world needs, prices can skyrocket," says Strand.

And then there is the industrial side of the equation, which Strand sees as equally decisive. "Even if a car only uses about 30 grams of silver, you cannot produce the car without it. It's impossible," he says. Because silver is such a small input cost, price becomes almost irrelevant for manufacturers. For Strand, this forms a separate and powerful investment thesis alongside monetary inflation. "This is a structural shortage of an essential metal," he reiterates. "It's a completely different story, but equally important."

Mining Stocks: Operational and Currency Leverage

For many investors, precious-metals exposure begins and ends with physical bullion or ETFs. While these offer a clean hedge against inflation, currency debasement, and systemic risk, they lack one crucial feature: operational leverage. Mining companies, by contrast, can see profits rise much faster than the underlying metal price. Most of a miner's costs are largely fixed: infrastructure, labor, energy contracts, and equipment. When the price of gold or silver increases, revenue rises immediately while costs remain largely unchanged. This creates a multiplier effect on margins and cash flow. A 20 percent rise in the gold price can translate into a far larger jump in earnings, which is why mining equities often outperform the metals themselves during sustained bull markets.

In addition, mining stocks typically lag the initial move in metals. Miners base their operations on average prices over time, rather than reacting to short-term spikes, creating potential entry points for investors. “If you sometimes think, ‘Oh no, gold has gone up too much, I’m too late,’ there is normally a lag before miners really take off,” confirms Strand. “Miners operate based on the average price. The market often underestimates how long prices will hold, which creates opportunities when it eventually realizes that gold or silver prices are likely to remain at this level or even rise further.”

Looking ahead, Strand sees significant upside for precious metals. He expects the gold price to reach $10,000 per ounce, up from $4,000 – roughly 2.5× – while silver could rise sixfold. “But miners could potentially return 15×,” he notes. According to Strand, “If you play precious metals for portfolio safety, gold is the place to go. If you’re seeking returns or opportunity, silver or the miners or ultimately silver miners offer the real upside.” One advantage of gaining exposure through miners, he adds, is capital efficiency. “You don’t need to allocate the recommended 20 percent to the portfolio. You might only use half of it and still capture the same level of returns.”

Strand highlights that miners can be particularly attractive for European investors expecting a softer U.S. dollar, a dynamic he calls the ‘2×2 effect.’ “Miners typically offer about twice the leverage of the underlying metal,” he explains. The currency effect, however, can amplify this further. “If gold rises 20 percent in dollars, miners may rise 40 percent, the standard 2× leverage. But if the dollar then weakens 10 percent against the euro or krona, a European investor would see gold return roughly 10 percent, while miners return 30 percent,” he elaborates. “Suddenly, the effective leverage jumps from 2× to 3×.” For Strand, this combination of operational and currency leverage makes mining stocks a uniquely compelling way to gain exposure to precious metals.