



## With His Fund Up 100% This Year, Veteran Manager Says Gold Can Go Higher

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Chuck Jaffe, in this episode of The NAVigator podcast interviews Axel Merk, Chief Investment Officer of the ASA Gold and Precious Metals Fund. Axel says that while gold has been rolling this year, the start of rate cuts along with a weakening dollar and persistent geopolitical risks (including tariffs) make it that there is no end in sight for the precious metals rally to continue. ASA Gold, which invests largely in junior mining companies, is up more than 100 percent year-to-date (compared to roughly 40 percent gains for physical gold ETFs),

but still carries a double-digit discount, and Merk explains why that is logical given current market conditions.

The podcast can be found on AICA's website by clicking here: <https://aicalliance.org/alliance-content/pod-cast/>

**CHUCK JAFFE:** We're talking with Axel Merk, chief investment officer of the ASA Gold and Precious Metals Fund, which has gained more than 100% year to date, this is The NAVigator. Welcome to The NAVigator, where we talk about all-weather active investing and plotting a course to financial success with the help of closed-end funds. The NAVigator is brought to you by the Active Investment Company Alliance, a unique industry organization representing the full spectrum of the closed-end fund business from investors and users to fund sponsors and creators. If you're looking for excellence beyond indexing, The NAVigator will point you in the right direction. Today we're looking in the direction of hard assets, gold

and precious metals, with Axel Merk, president and chief investment officer of the Merk Funds and Merk Investments, also the chief investment officer of the ASA Gold and Precious Metals Fund, which trades under ticker symbol ASA, go to [ASALtd.com](http://ASALtd.com) to learn more about the closed-end fund and to [MerkInvestments.com](http://MerkInvestments.com) for more on his firm. And while it's been a pretty amazing year for gold, the year's been even greater for the firm, which now has a bit under three billion dollars in assets under management but which had roughly half of that just a year ago. And by the way, if you want to learn more generally about closed-end funds, interval funds, and business-development companies, go to [AICAlliance.org](http://AICAlliance.org), the website for the Active Investment Company Alliance. Axel Merk, it's great to chat with you again.

**AXEL MERK:** Great to chat with you, and since you're touting the 100% up, I've got to caution, anything that goes up that much is a bit volatile, so fasten your seatbelt if you're going to look at this fund.

**CHUCK JAFFE:** Well, yes, because we should point out, gold itself, and that's whether I'm looking at just a physical gold ETF or I'm looking at the VanEck Merk Gold ETF, which is OUNZ, or I'm looking at GLD, the SPDR Gold Shares, et cetera, is up about 39%, 40% this year. So if it wasn't 100% but it was 40%, you would expect if you've done that much you've got to have a turnaround, but there's not much indication that a turnaround is coming, so let's start there, because I've talked to people who say gold could go much higher. Is much higher in your forecast at this point?

**AXEL MERK:** I look at investments in terms of risk. I'm of course constitutionally bias to investing in gold and gold mining, it's about being able to afford the risk either way, right? On the way up of course it's easier to afford than on the way down. We are in an environment where the Federal Reserve is likely to lower rates, so that's a positive, we're in an easing rather than a tightening environment, the junior mining companies don't do too well when monetary policy is tight. I like to say that they have credit risk even though they don't get debt financing for the most part, but when the financing conditions are tight and valuations are lower, the funding window is clearly open. When you go to the more junior companies you're literally betting on them striking gold and being able to develop the mine, they have to go back to the funding markets. It's the market, the section of the S&P with the greatest dispersion of risk, it's a fancy way of saying active management matters. The money of late has been flowing into the big players, if history is any guide, it first flows to the big players,

then to the juniors. The juniors have somewhat kept up, and I'm not saying that the juniors necessarily go up from here, but if history is any guide, there is a substantial chance that it well may happen.

**CHUCK JAFFE:** If history is a guide, the only way I can judge 100% gain year to date, when gold itself the metal is up 40%, is that the juniors have already benefited to one extent or another. Or is there something else that explains the tremendous level of overperformance you've had?

**AXEL MERK:** Well, in theory at least the gold miners should have a leverage to the price of gold, and I say in theory because in practice in recent decades it hasn't happened as much because when the price of gold, the commodity prices tend to go higher, about 20-25% of the cost of mining is energy costs. Governments want to have more tax revenue, the workers want to have higher wages, and so this leverage that you have when the price of gold goes up but the production cost is stable, well, that hasn't quite happened. This time around it is playing out much more closely, costs are up a little bit but not much, there is of course a very optimistic streak right now. That said, there's still a lot of discipline, and when there are funding rounds, you're not going to get money if you assume that the price of gold has to be where it currently is, and they're pricing far lower gold prices, which means the margins are very high and the ounce of gold in the ground is valued much less than it used to be. And so while the shares have gone up, I hate to use that word when we're up so dramatically, in some ways there is tremendous value in many of these securities, this assumes of course the price of gold will stay elevated and these companies are able to execute.

**CHUCK JAFFE:** Can we assume that the price of gold will stay elevated? Because when you and I spoke for The NAVigator at the AICA 2024 Roundtable in November of last year, we were talking about the potential for rate cuts, and precious metals, as you reminded me then, perform better in higher rate environments. Well, we've had that higher rate environment sticking around this whole year, but we just had a rate cut and there's the promise of at least two more potentially this year, is that going to be something that moves gold?

**AXEL MERK:** To clarify what I said there is when there's the anticipation of rate cuts, and so if we're at the bottom, then the anticipation may be that rates are going to tighten, right? And we are far away from that, and historically, yes, we have been in the sweet spot and continue to be in the sweet spot. The one that has happened is that the odds of a rate cut have been

pushed out further obviously now we've had the first rate cut, but it is about what might happen in the future and that's how markets react. The other thing that I believe I said is, gold tends to do well when we have a more severe downturn. When you have a shallow recession, the markets have discounting mechanisms and regular equities do as well, if you have a more pronounced downturn, then investors scramble more aggressively looking for alternatives and gold is a beneficiary. The other trend of course that's happening is we have a weakening dollar and there are various concerns, the one thing we didn't have when we talked last is we didn't have Liberation Day. When you have tariffs, in my assessment you're not just impacting the flow of goods, you're impacting the flow of money, the other side of that, and it's a key reason why funding costs for the US government has gone up. And so a lot of the concerns in the gold community that have been more fringe type of views are moving more to the mainstream, and one reason these markets are up so much is because these markets are not that huge, and so you don't need much money to move into that space for extraordinary returns.

**CHUCK JAFFE:** At the same time, we're talking about a fund up 100% this year that is still carrying a 10% discount, and I know that that discount has widened a little bit in the last few days, possibly because the fund and the market were reacting to the rate cut news, and I really don't ever talk to closed-end fund managers about their discount, but I don't fully understand how a fund can be up over 100% in nine months and still be carrying a double-digit discount.

**AXEL MERK:** Well, it's completely rational in some ways, I hate to disappoint you, because most closed-end fund managers you talk to are fixed-income managers. When you talk to a manager in the gold mining space, which we are, especially one focusing on more junior companies, we are investing in companies that for the most part are not particularly liquid, but the closed-end fund wrapper provides a liquid wrapper to invest in these funds. And so if you think about any other illiquid holding that you have and wanted to sell that tomorrow, you'd have to sell it in discount, so it is rational that in many and/or most environments this will sell at a discount. Now of course, if there's enough demand it may sell at par or even as a premium, that to me would be a potential sign of a market top. One other thing that in this context I'd mention, you talked about some of the physical gold ETFs, the global physical ETF holdings are substantially below the peak than they had been a few years ago, and so even

though the valuations are much higher, it is not, from those metrics at least, a euphoria that you would think. I mean, of course we feel much better where we are right now than where we were a year ago, but there are numerous indications that this is not a market top, and it's very difficult to say when that will happen but we are not there at this stage.

**CHUCK JAFFE:** And do you have an outlook for where gold could get to? I mean, what's a target price? If we're looking at a market that's not close to a top, a market that has seen gold be a tremendous geopolitical hedge and there's plenty of geopolitical turmoil to keep going around?

**AXEL MERK:** Well, I'd just like to remind people that we have a global population that's shrinking, especially in western countries, we have democracies in these countries that we have promised them that we will pay them lots and lots of benefits, and that means that government finance is having a very, very difficult time of staying in order. Look at the US where we've had DOGE, but we haven't fixed entitlement issues and whatnot. And so the path of least resistance is to apply more pressure on central banks, hint, hint, that has been happening, to a very light extent, but there is a lot more that could come down the pipeline. And if that were the case, what do you do as an investor? I'm not saying all the money is going to go into gold, but again gold is a beneficiary and gold miners are beneficiaries as part of this process, and if that is indeed the storyline that's going to continue to be around, it is very difficult for me to see how gold is going to lose out at the end of the day in this. Again, it doesn't mean that the Fed can't hike rates in between, but it does mean that again a lot of the views that used to be on the margin are moving more to the mainstream, and that can have outsized impacts on the returns.

**CHUCK JAFFE:** So do you have an early outlook for gold for '26? I mean, you've said, so I already know some of the answer, that you think that things will keep going.

**AXEL MERK:** You're fishing for a price target, which I'm not going to give you. I continue to look at the balance of risks, ultimately our job is to communicate what we do so investors can choose where they want to be. We have seen some investor turnover in the fund, if we look closely at the tape so to speak, we've seen both buyers and sellers, so clearly some investors are taking profit whereas others are coming in. Again, we invest mostly in the developer space, the more junior companies, and when I look at the price of gold and where the valuations are, I'm actually tremendously excited. But at the same time, timing these

markets is all but impossible. This fund can move 10% in a week, and so if you're a little careful you might miss a move, the same thing can of course happen on the downside. As we're talking, we have a gazillion central banks give announcements on Friday the 19th of September is a expiration date, movements can happen, things can settle, so given the strong moves we've had, you can also have a substantial downturn. And if you want to have a sign of a market peak, I was invited the other day on a mainstream media outlet that I hadn't been on for a while and they asked me about, "Isn't this market a bit toppy?" and my response was the fact that they had me on as a guest is the most negative thing I have to say about the price of gold.

**CHUCK JAFFE:** Last questions, and I recognize it's a tough one to answer, but the last times we have talked with you here on The NAVigator we have discussed the fact that ASA has been facing an activist shareholder, Saba Capital. I know that there are things happening that you can't really discuss, and obviously it hasn't seemed to hurt the performance of the fund no matter what's going on given the results.

**AXEL MERK:** Well, I can focus on the last bit. Our job is to manage the fund, we're focused on that, the proof is in the pudding. There have been several press releases, 8-Ks and other announcements, and I'd like to refer people to the website for information, they're more than welcome to reach out to us or the board for more details. I'm the head of the advisor, I also carry the hat of chief operating officer, which is another function, so I do have to get involved a little bit beyond the advisor side, but for the most part my job is to focus on the investments. We have a fantastic team, in this turmoil that we've had in the past, we haven't had any defections, which is a great credit to the team that I have, I'm very proud of them, but that's about the extent to which I can comment on things.

**CHUCK JAFFE:** I appreciate the update, I knew we could not go beyond that, but again I think the update that it hasn't affected performance and that we'll see resolution soon is important. Thank you so much, Axel, for the time, we'll talk to you again down the line.

**AXEL MERK:** My pleasure.

**CHUCK JAFFE:** The NAVigator is a joint production of the Active Investment Company Alliance and Money Life with Chuck Jaffe, and yeah, that's me, and I'd love it if you'd check out my show on your favorite podcast app or by going to [MoneyLifeShow.com](http://MoneyLifeShow.com). Now to learn more about interval funds, closed-end funds, and business-development companies, go to

[AICalliance.org](http://AICalliance.org), it's the website for the Active Investment Company Alliance. Thanks to my guest Axel Merk, chief investment officer for the ASA Gold and Precious Metals Fund, it's ticker symbol ASA. He's also president at Merk Investments, see [ASALtd.com](http://ASALtd.com) for details on the closed-end fund and [MerkInvestments.com](http://MerkInvestments.com) or [MerkFunds.com](http://MerkFunds.com) for details on the open-end side of his business. The NAVigator podcast has something new for you every Friday, make sure you never miss an episode by subscribing or following along on your favorite podcast app, and if you liked this podcast, leave us a review and tell your friends, because that stuff really does help. Until next week, happy investing, everybody.

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