

GOLD?

In times of trouble, doubt and uncertainty in investment markets, should we not be thinking about introducing an exposure to GOLD in the Defensive Asset sector of our portfolios?

There is no doubt that the Defensive Asset sector of our portfolios have been served well over the years by Fixed Term Deposits. Notwithstanding current interest rates, there is a need to retain an exposure to Fixed Term Deposits, if not for any other reason, but to guarantee, for the present and the future, the ability to provide pension payments, in particular. The lack however, of reasonable interest rate returns, means that our portfolios are now wearing an increasingly greater burden in this commitment to liquidity.

In the past, the pursuit of 'safe haven' assets in the Defensive Asset sector of the portfolio also led to investments in Sovereign Bonds but these too no longer offer any real reward.

So where to you find another genuine Defensive Asset?

Some would argue that GOLD is the ultimate Defensive Asset and whilst it might be regarded as that, it has also provided over time, genuine growth opportunities with historically minimal downside risk over any reasonable period of time.

Technically, there is an argument that GOLD bears a negative correlation to equities, that is to say, the relationship between GOLD and equities move in opposite directions in period of financial stress. However, the relationship between GOLD and Risk Assets, have also been seen to move together sometimes in periods of low interest rates.

If one wants to invest in GOLD, what do you actually buy?

We are not discussing here acquiring interest in GOLD mining companies per se, but two trading entities in particular, through the ASX where you are either buying shares backed by actual GOLD or buying shares which provide you with the right to acquire either GOLD or its cash equivalent on the sale of its shares. In these two instances, the value of shares at any time is determined by the value of GOLD and are somewhat insulated from capricious share market behaviour for reasons which can neither be understood sometimes or anticipated.

If you are interested in exploring the idea of including an exposure to GOLD in the Defensive area of your portfolio, we will arrange, on your request, an opinion from Evans and Partners on the available options, supported by technical understandings and necessary analysis.