Investing in Gold

Over the last months I have been attending a few events and talks which have been hosted by head economist of some of the top local and offshore investment companies. From all the talks that I have attended a Dollar collapse has never been a topic that has been discussed as being a concern.

Here is some information I have gathered from the most recent conferences on the current economy:

- Most economist showed graphs advising that the US economy is still booming and outperforming in growth in comparison to other economies.
- US is done with quotative easing which means the Central Bank will cut back on money supply and will implement quotative tightening.
- With quantitative tightening this will cause the US Dollar to strengthen which will have a negative impact on emerging markets.
- Most fund managers have very little or no exposure to commodities it's seen as an extremely volatile and risky asset class.
- Growth in China has been very slow due to the trade tension between the US.

With regards to the US Dollar collapsing as mentioned in a previous email we don't see this happening. Of course, no currency is unassailable, and China's officials have thrown their weight behind internationalising the Yuan. When only international payments are considered, the Yuan drops to eighth place behind: the dollar, followed by the Japanese yen, British pound, Swiss franc, Canadian dollar and Aussie dollar, which all have a share of 5% or less.

The size of the US economy and the level of trade are not the only reasons the US dollar is the principal foreign reserve currency. The transparency of the US financial markets as well as the predictability and credibility of monetary policy reinforce the safe-haven status that the dollar holds. Unlike many other economies, the current structure of the US economy also makes it reasonably tolerant to running continuous trade deficits, which also supports our view that the US dollar is to remain the dominant foreign currency reserve for some time.

The convenience and cost advantage of trading in US dollars means that central banks would have to weigh up the outlay of shifting a sizable dollar portion into alternative currencies. In addition, the extensive proportion of US dollars in foreign reserves means that although shifts in reserve holdings do occur, it could take decades for them to accumulate into a notable shift in the US dollar's position as the key global reserve currency.

Our opinion on investing in Gold:
Gold can certainly be viewed as an investment, but in our opinion investing in Gold we would not see as the best investment approach. The reason why is simply because gold, and commodities like gold, are not wealth generating assets. Any growth in its value depends entirely on the belief that someone else will pay more for it eventually. Gold is an unproductive asset. Unlike investing in funds, shares, bonds, deposits and the money

market it does not contribute to any kind of economic growth. A pile of gold will stay the same pile of gold no matter how much time passes.

Today our economy is volatile and there are many factors such like corruption, speculation, foreign economies, economic volatility the Government that are contributing to investors' concerns and so turning to Gold as a safe haven. Gold prices have shot up due to the imbalance of demand and supply. Lot of people are buying it in all forms, but not many are selling it. This is resulting in speculation, lack of supply and ultimately the Government stepping in to curb the sale and imports of Gold to bring some sense in the economy. Investment in Gold can only be called an investment if it is regularly traded for returns. But this is not seen so often especially among the common man because psychologically any asset that has high appreciation value is difficult to sell.

Investors may not sell Gold because it may be viewed as a long term investment, but even investing in equity is long term investment but it at least gives you returns even before you sell it or disinvest. It will give you returns in the form of dividend or interest that you can either use, or re-invest. Same thing can be argued for property. But again property has a potential to give you at least some sort of rental income. Thus even these long term asset classes give you some sort of returns which you can use from time to time, where Gold may not give such returns. You will have to sell Gold to get anything in return and this is where we don't really see the value in investing in Gold.

Please note the above is our opinion but should you feel you would like to have exposure to Gold we would advise it only be a small portion of your portfolio. A diversified portfolio is very important and one should never have all their eggs in one basket.

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