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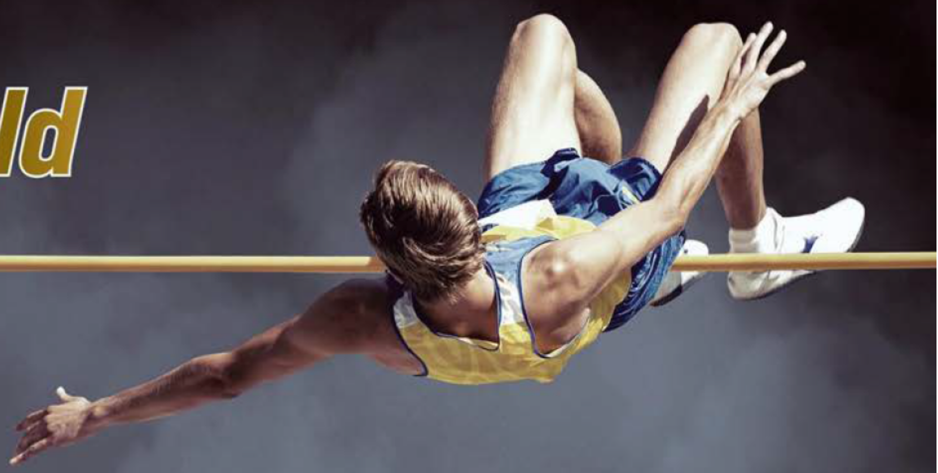
WEALTH MANAGEMENT

Going for gold

CONSIDERATIONS FOR INVESTORS



Gold fever is in the air and it's not just the prospect of medals at the upcoming Paris Olympics.

Gold prices have been climbing strongly in 2024 as investors, jittery about the effects of wars in the Middle East and Ukraine, buy up the asset because of its reputation as a safe haven. The spot price has risen more than 18 per cent since mid-February

Demand for the precious metal is also being driven by central banks adding to their gold reserves to hedge against currency and other market risks.

Turkey, China and India were the biggest buyers of gold in the first half of 2024, aiming to reduce exposure to US dollar movements and to further diversify their reserve funds.[ii] The United States remains the largest gold depository in the world by far, holding two-and-a-half times more than Germany, the next on the list.[iii]

For investors, gold has been an alluring buy for centuries thanks to its association with wealth and power. As a precious metal and a physical asset, it often attracts a certain confidence, which is sometimes misplaced.

Controversial history

Gold has always played an important and, at times, controversial role in the global monetary system.

For example, during the Great Depression in the 1930s, the US government forced its citizens to sell their gold at well below market rates to help stabilise the economy. Then a new official rate was set at a higher price. It was the beginning of the end for the gold standard worldwide, the monetary system that pegs a currency's value to gold.

After World War Two, a new international monetary order was negotiated that saw the US dollar pegged to gold with other currencies linked to the dollar's value. The USO was convertible to gold bullion at a fixed rate of US$35 per troy ounce.[iv]

But increasing global financial instability and criticism from European nations eventually led to the system being abandoned by the 1970s when floating exchange rates were introduced.

Patchy performance

Day traders might be lucky enough at times to buy or sell gold for a decent profit by correctly guessing when to get in or out but generally speaking, gold is not an easy investment to love.

Over the longer term, it hasn't always beaten inflation, the price can plunge at a time when market conditions suggest it should be rising and its performance against stocks and bonds has been varied.

In fact, there have been long periods of persistently low prices. It languished for around six years from 1988 before recovering and then again for the decade or so leading up to the beginning of COVID-19 in 2020. The uncertainty of the pandemic-era helped spark a rally that has increased the price by almost 38 per cent.

Pros and cons

So, is gold worth considering as part of a portfolio? As with any investment, there are pros and cons.

Like many other asset classes, gold can help to diversify a portfolio and reduce certain risks. During stock

market downturns, gold prices often (but not always) begin to rise.

Some investors like the idea that it is a scarce physical asset, and, despite its ups and downs, gold has tended to hold its value over time.

At times gold has provided a good hedge against inflation. For example, in the US between 1974 and 2008, there were eight years when inflation was high and during those times, gold prices rose by an average of 14.9 per cent annually.v But different periods give different results. While US CPI growth was around 6.8 per cent in 2021 and 2022, gold prices were achieving an annual increase of just over 1 per cent.

How to invest

You don't need to lug home gold bars and hide them under the bed to have a stake in a gold investment.

Of course, it is possible to own gold bullion by buying online or in person from one of a number of registered dealers in Australia.

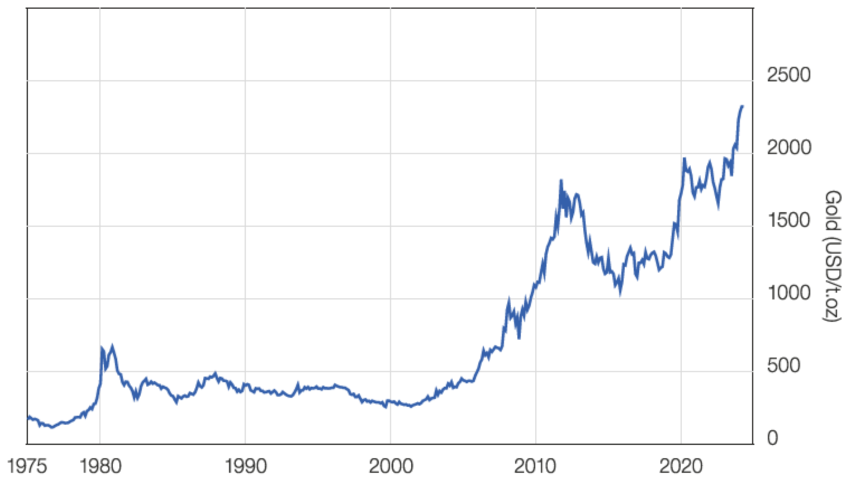
The actual gold can be delivered to you or held in storage for a fee. You could also own physical gold by buying jewellery although there are high mark ups and resale value isn't assured.

The ASX provides the avenue to buy shares in one or more of the many gold mining companies. You'll need to do your homework carefully to consider the credentials of the companies. Some are riskier than others depending on the countries in which they operate and their size.

You could also consider exchange traded funds (ETFs) that are linked to or track the gold price. One advantage is provided by the funds that hedge currency risk so that your returns won't be affected by differences in the US dollar. Although with any fund, you'll need to factor in an annual management fee, which will reduce your ultimate return.

If you're interested in achieving a balanced portfolio, we'd be happy to help you.

Gold Prices (1970's - today)



Source: tradingeconomics.com

i. https://tradingeconomics.com/commodity/gold
ii. https://wwwstatista.com/statistics/1465127/gold-demand-central-banks-by-country/#
iii. https://www.nasdaq.com/articles/top-10-central-bank-gold-reserves-updated-2024
iv. https://www.investopedia.com/articles/forex/122215/bretton-woods-system- how-it-changed-world.asp#
v. https://www.forbes.com/advisor/investing/gold-inflation-hedge/

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