SR G

The ' Golden dilemma "

Gold is difficult. I have always had an ambivalent attitude to gold. On the one can the price movement is largely based on sentiment based and therefore difficult to predict. On the other hand appears from exercises that adding gold to a ' value ' investment portfolio may have from scatter point of view. New scientific study shines light on the gold dilemma.

The followers of the investing in gold use of various arguments. Gold would be good if:

1. inflatiehedge
2. valutahedge (either Gold increases as the currency drops)
3. investment in a climate with low real yields (as now)
4. safe haven in times of stress

In addition, gold:

1. attractive because we returned a gold standard would draw near (and central banks have to buy gold)
2. (strategic) underweight are in many investment portfolios.

Two well-known scientists, namely Claude Erb and Campbell Harvey, these arguments in a particularly interesting study explored on their validity. Their study called ' The Golden Dilemma ' to me is a ' must read ' for anyone interested in gold (and want to operate the right arguments).

Prefer no gold

Opponents of gold are also there. A well known among them is Warren Buffett. So he said: ' some gold buyers is their belief that motivates the group fear Hare will grow. In the past decade proved this belief to be correct. Subsequently, the rising gold price new enthusiasts to the market sucked, making the price rise in the validation of the investment theme goudals gold is seen. As more investors the gold party visits they create their own truth ... . for a while '.

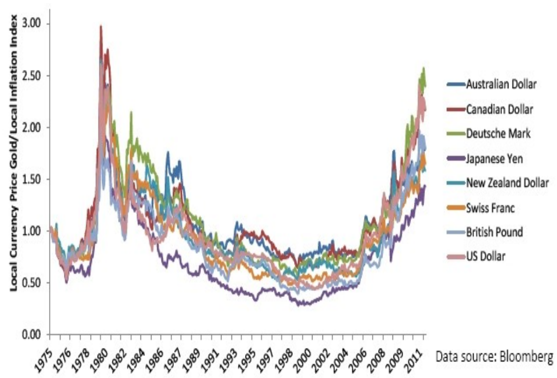
Also I have in the past not in favour of the investing in gold. In a (properly afterwards timed) column of 23 August 2011 I wrote that the rise of gold me to the Nasdaq rally from late 1990s did think and gave five arguments why you no longer had to buy gold.

Most Pro-Gold arguments are hot air

Erb and Harvey leave little very of most arguments whose gold adepts use, the potential inflatiehedge for example. In the figure below gives the blue line the gold price divided by the inflation index (American CPI). As gold more or less than expected inflation would follow you a much more constant line expect. Erb and Harvey conclude that gold too intense moves to a gold inflatiehedge (aside, the paper gives more knowledge than this picture). From the image also shows that gold historically and in real terms seen expensive (well above the average state).

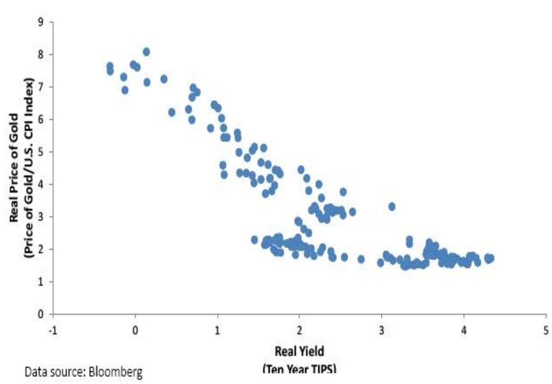
Source: The Golden Dilemma (Erb, Harvey, January 2013)

Then the argument that gold would provide compensation for falls in currencies. Suppose the euro with 10% would bags, then gold would have to rise by 10%. This argument is also difficult. So say Erb and Harvey that gold prices will be converted into local currencies almost always in the same direction (see the picture below). So gold is going his own way, independent of the power of the different currencies.



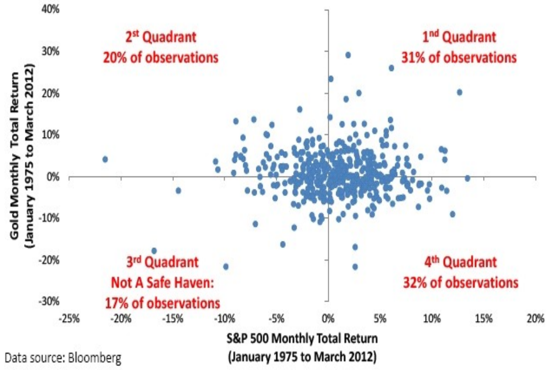
Source: The Golden Dilemma (Erb, Harvey, January 2013)

Then the argument that gold would do well in the environment of low real interest rates. The picture below this seems indeed to suggest, at low or negative real interest rates (horizontal axis) we see high real gold prices (vertical axis). The two scientists, however, unfortunately none of the assumptions behind this apparent correlation validation, after which their conclusion is that this argument has no wood cuts.



Source: The Golden Dilemma (Erb, Harvey, January 2013)

Gold shows statistically even though no hedge for bad times. The two scientists have in all kinds of stress situations looked at the gold returns and there was no arrow. The picture below, for example, places the gold return vs. the return on equities (S & P500). The point cloud extends over all quadrants. So, gold can do well as the S & P500 is doing well, but also as the S & P500 it does poorly.



Source: The Golden Dilemma (Erb, Harvey, January 2013)

Continue about the arguments that gold is interesting because we would move again to a de facto gold standard (this also thought about buying up gold by central banks, especially from emerging markets, as backup for their currency reserves) and that would be more and more by investors bought gold because they are going to add this to the portfolio. The two scientists show that increasing demand gold indeed (fast) could rise (especially also because the gold market is relatively illiquid – only a small piece of the gold stock is traded on the financial markets).

The problem of these (ask-and supply-driven) arguments, however, is, as saying Erb and Harvey rightly, that they imply a new reality and not with historical data can be supported. The dilemma for a Gold investor is so that based on the statistic few Pro-Gold arguments (in fact, that gold earlier historically duration seems to be) and that the pro-arguments still but have to prove.

SR g is an economist and Research Director and partner at Inmaxxa asset management in Naarden (www.inmaxxa.nl). In addition, he is editor of Traders Club Magazine (TCM) and partner of the ML Finance Academy (www.mlfa.eu). The information in this opinion is not intended as individual investment advice or as a recommendation to make certain investments. The views and perspectives of G give his personal opinion.