COLUMN

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The Golden Dilemma

From 2000 to 2012, the gold price per ounce has risen from around 280 to almost $ 1,670. This gives an average annual growth rate of over 16 percent. All-time high reached in September 2011, the price of gold around $ 1,900. Currently the exchange rate is at $ 1,300.

Regarding the question of whether gold is a good investment or not, the experts opinions are far apart. The Living Legend Investment Warren Buffett recently said he would buy even after a decline in the gold price to $ 800 no gold. In contrast, the central banks falter their gold reserves on and on. Last year they bought 534.6 tons of gold worldwide, the highest value since 1964. The World Gold Council estimates that this year the central bank will buy about 550 tons.

End of 2011 there were, according to the World Gold Council World 171'300 tons of gold. This corresponds to a gold cube with side length of 20 meters. For this purpose, yet there are about 51,000 tons of gold that still lie beneath the earth. If the current flow rates remain constant, these reserves will be promoted in 20 years to days. Other gold deposits are suspected on a larger scale in the oceans and on asteroids. About half of the available gold jewelry is 18% each held by central banks and the private sector as an investment and the remainder is used for industrial purposes.

How is against this background, with the gold price further? Is gold overvalued or we are just at the beginning of a long-term gold rally? Claude B. Erb and Campbell R. Harvey looked into this question are "The Golden Dilemma" in their study and come to interesting results. First, they show that gold is "safe" investment is contrary to the prevailing opinion no. Gold offers either the short or long term a reliable protection against inflation. Also as a hedge against currency risks gold is not suitable because the real price of gold fluctuates more than the exchange rates. Finally, gold is also no reliable system in times of war, as it is more of a hindrance because of its weight at a possible escape.

While these arguments speak for an overvaluation, Erb and Harvey try to justify portfolio with theoretical considerations of future gold rally, and argue as follows: Gold has to equities and bonds, although unstable but very low return correlations. In a diversified portfolio should therefore be contained gold. At the time of their study (May 2013) of the total value of all shares of this world, according to Bloomberg was at 48 trillion of the $ 41 trillion in gold and all assets that are not held by central banks, at $ 1.8 trillion. Bonds of all Accordingly, there is a diversified "market portfolio" of 53% equities, 45% bonds and 2% of gold. However, since many institutional investors such as pension funds have much lower or no gold investments, gold prices would continue to rise if each of these investors would seek a

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gold content of 2% in their portfolio.

I consider this argument, however, for less valid because it vice versa are many private investors who have invested more than 2% of their portfolio value in gold. These investors have to sell portfolio from theoretical point of view a portion of their gold holdings to reflect the market portfolio. In addition, Erb and Harvey does not seem to take into account the investments in gold mines in their study.

Convincing, however, their argument seems to me that the demand for gold increases significantly when the central banks of the so-called BRIC countries (Brazil, Russia, India and China) to adapt their gold reserves to Western standards. In May 2013, the gold reserves of the United States were approximately 8000 tons and 1000 tons of Switzerland. In comparison, the BRIC countries possessed a total of 2457 tons of gold. If the BRIC countries, the same ratio of gold reserves to gross domestic product strive like the U.S., they would have to increase their gold reserves to 6233 tonnes. If they wanted to per capita gold reserves as high as the United States, they would have 77'811 tons of gold.

The demand for gold would rise much stronger if the BRIC countries aspire to the same relations as Switzerland. If they wanted to catch up on gold reserves ratio to gross domestic product of Switzerland, their gold reserves, according to Erb and Harvey would grow to 22'191 tons. If they wanted to reach the same per capita ratio as Switzerland, they had to increase its gold reserves to 415'812 tons, or about 2.5 times of the world's available gold stocks.

So while many believe that the gold price will approach its historical average of the long-term rise again, there are good reasons that speak for another gold rally. This "golden predicament" is finally confronted each investor, whether he wants to or not.

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