GoldCore

Gold Is A Safe Haven Asset

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INTRODUCTION

"The desire of gold is not for gold. It is for the means of freedom and benefit"

Ralph Waldo Emerson

There is a significant and growing consensus amongst academics, independent researchers and asset allocation experts that gold is a hedging instrument and a safe haven asset. Thus, many financial professionals, including GoldCore, now believe that gold should form part of investment and savings portfolios for reasons of diversification and financial insurance

Indeed, there is now a large body of academic and independent research showing gold is a safe haven asset and showing gold's importance in investment and pension portfolios. This allocation is in order to both enhance returns but more importantly reduce overall volatility.

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Gold in US Dollars - 1971 to Today (Quarterly) - Bloomberg

The importance of owning gold in a properly diversified portfolio has been shown in numerous academic papers. It has been shown in independent research by the asset allocation specialists, Mercer Consulting and Ibbotson Associates. It has also been shown by consulting group, New Frontier Advisors and by leading international think tank, Chatham House.

Gold has protected people throughout history from inflation and currency debasement. The historical record also shows how gold has protected people from stock and property market crashes, and from asset confiscation.

Definition of 'Safe Haven'

An investment that is expected to retain its value or even increase its value in times of market turbulence. Safe havens are sought after by investors to limit their exposure to losses in the event of market downturns. However, what are considered safe havens alter over time as market conditions change, and what appears to be a safe investment in one down market could be a disastrous investment in another down market.[1]

[1] http://www.investopedia.com/terms/s/safe-haven.asp

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RESEARCH

Academic Research

Since the financial crisis began, there has been a remarkable explosion in research on gold. There is an increasing consensus in academia that gold is a safe haven asset.

Gold's qualities as a hedging instrument and safe haven asset have been thoroughly examined in recent years. Sherman (1982) suggested a weighting of 5% in an equity portfolio resulted in lower risk and higher return[2].

Research by Hillier, Draper et al (2006)[3] suggests weights in the small percentages for a variety of precious metals, with gold acting as the most efficient diversifier. Baur and McDermott (2010) confirmed in their more recent research that gold is an excellent hedge for equity investors and a safe haven for bond investors internationally[4].

[2] 'Gold: A Conservative, Prudent Diversifier' - Journal of Portfolio Management, Sherman (1982) http://www.iijournals.com/doi/abs/10.3905/jpm.1982.408850#sthash.X9hVwS6c.dpbs

[3] 'Do precious metals shine? An investment perspective' - Financial Analysts Journal, Hillier, Draper et al (2006) http://papers.ssrn.com/sol3/papers.cfm?abstract_id=903774

[4] 'Is gold a safe haven? International evidence' - Journal of Banking and Finance, Baur and McDermott (2010) http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1516838

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Gold and S&P 500 - 1999 To Today - Bloomberg

Perhaps the most studied area is the role and weighting that gold might have in a portfolio. Studies by Bruno and Chincarini suggest allocating 10% of the portfolio to gold for non-US investors[5]. Scherer recommends a 5-10% weighting of gold for sovereign wealth funds[6]. For high net worth individuals and family offices, Klement and Longchamp (2010)[7] suggest an allocation in the range of 5% to 10% by weight to gold in an equity portfolio.

Lucey, Poti et al. (2006)[8] examine portfolio choice where the investor is concerned with downside protection and find an optimal weight of between 6% to 25%, depending on the time

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[5] 'Historical Examination of Optimal Real Return Portfolios for Non-US Investors' -Review of Financial Economics, Bruno & Chincarini (2010) - http://econpapers.repec.org/article/eeerevfin/v_3a19_3ay_3a2010_3ai_3a4_3ap_3a161-178.htm

[6] 'A note on portfolio choice for sovereign wealth funds' - Financial Markets and Portfolio Management, Scherer (2009)

http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1626336

[7] 'Managing currency risks for global families' - Journal of Wealth Management, Klement, J. and Y. Longchamp (2010)

http://www.iijournals.com/doi/abs/10.3905/jwm.2010.13.2.076#sthash.2uhJpkCJ.dpbs

[8] 'International Portfolio Formation, Skewness and the Role of Gold' - Frontiers in Finance and Economics' - Lucey, Poti and Tully (2006)

http://www.tcd.ie/iiis/documents/discussion/pdfs/iiisdp30.pdf period and the other assets included. Baur and Lucey (2010)[9] provided the first statistical test of when gold acts as a safe haven and when as a hedge.

An academic paper, ‘Hedges and Safe Havens – An Examination of Stocks, Bonds, Oil, Gold and the Dollar' by Dr Constantin Gurdgiev and Dr Brian Lucey[10] and was presented in November 2011 at a conference hosted by the Bank for International Settlements (BIS), the ECB and the World Bank.

This excellent research paper clearly shows gold's importance to a diversified portfolio due to gold's "unique properties as simultaneously a hedge instrument and a safe haven."

Independent Research and Asset Allocation Research

Many studies have shown that precious metals are one of the few asset classes with a positive correlation coefficient with inflation. According to asset allocation experts, Ibbotson Associates[11], precious metals are the most positively correlated asset class to inflation. From a strategic point of view, Ibbotson determined that portfolios could reduce risks and improve returns with a 7-15% allocation to precious metals bullion.

In another important comprehensive study, Wainwright Economics[12], the respected independent research firm, said that gold is the most effective indicator of rising inflation. Their research proves gold’s role as effective protection against inflation shocks and shows gold as the most accurate indicator of future inflation and, when used alongside other inflation shields, is an effective hedge against inflation.

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[9] ‘Is Gold a Hedge or a Safe Haven? An Analysis of Stocks, Bonds and Gold’ - Financial Review, Baur and Lucey (2010)

http://www.tcd.ie/iiis/documents/discussion/pdfs/iiisdp198.pdf

[10] ‘Hedges and Safe Havens – An Examination of Stocks, Bonds, Oil, Gold and the Dollar' - Lucey and Gurdgiev, TCD (2011) www.tcd.ie/iiis/documents/discussion/abstracts/IIISDP337.php

[11] ‘Portfolio Diversification with Gold, Silver and Platinum’ - Ibbotson Associates (2005)

[12] ‘How much bullion would equity investors need to hold to insure against inflation?’ - Wainwright Economics (2010)

Gold and S&P 500 - 1998 To Today (Rebased to 1) - Bloomberg

Wainwright Economics research shows that gold is a superior predictor of inflation when compared with other measures such as inflation indices and oil. The research provides strong support for gold's long assumed role as a hedge against extreme events and economic shocks, including inflationary shocks. Because gold is an asset that goes up with inflation and actually increases at several times the rate of inflation, it is an excellent choice to be used alongside inflation indexed bonds.

Oxford Economics research on gold in 2011, 'The impact of inflation and deflation on the case for gold[13],' showed how gold is a good hedge against inflation as well as deflation.

Other excellent independent research has confirmed gold's unique role as a diversifier and foundation asset in the portfolios of investors, especially at a time of heightened currency, investment and systemic risk. The respected New Frontier Advisors (NFA) confirmed in research

[13] 'The impact of inflation and deflation on the case for gold,' Oxford Economics (2011) www.goldcore.com/gold-media/Oxford_Economics_Report_on_Gold_GoldCore.pdf

in 2012 ('Gold as a strategic asset for European investors'[14] that gold is an important diversification especially to Europeans and to investors and savers exposed to the euro.

A study by the World Gold Council[15] shows that a 1% increase in money supply triggers an average 0.9% increase in the price of gold six months later. When the money supply in the Eurozone is expanded, the gold price will also rise by 0.9% within six months.

In addition, gold is an excellent indicator of the velocity of money, especially in the USA. The gold price anticipates an increase in the velocity of money and interprets it as future inflation.

Gold is a good hedge against black-swan events and against tail risk. According to a study by Mercer[16], the so-called conditional value at risk can also be reduced drastically by adding just 5% of gold to a portfolio. This risk parameter (also called expected shortfall or expected tail loss) defines the deviation in case of an extreme event.

[14] 'Gold as a strategic asset for European investors,' New Frontier Advisors (NFA) (2011) www.gold.org/download/rs_archive/wgc_gold_as_strategic_asset_european_investors.pdf

[15] 'Linking Global Money Supply to Gold and Gold to Future Inflation', World Gold Council, (2010)

http://www.gold.org/download/rs_archive/money_supply_paper_jan10.pdf

[16] 'Gold als Anlageklasse für institutionelle Investoren' - 'Gold as investment class for institutional investors', Mercer (2011)

http://www.xetra-gold.com/xetragold/dispatch/de/binary/gdb_content_pool/imported_files/public_files/10_downloads/31_trading_member/80_Xetra_Gold/Mercer_Gold_Report110308.pdf

U.S. Dollar Index (USDX) - 1970 to Today - Bloomberg

"Gold will prove a haven from currency storms" is the conclusion of a wide-ranging analysis of the world monetary system by Official Monetary and Financial Institutions Forum, (OMFIF), the global monetary think-tank. The OMFIF report entitled, 'Gold, the Renminbi, and the multi-currency reserve system,' warns of "twin shocks" to the dollar and the euro and of a "coming dollar shock" and points out how gold would be a safe haven in a dollar crisis[17].

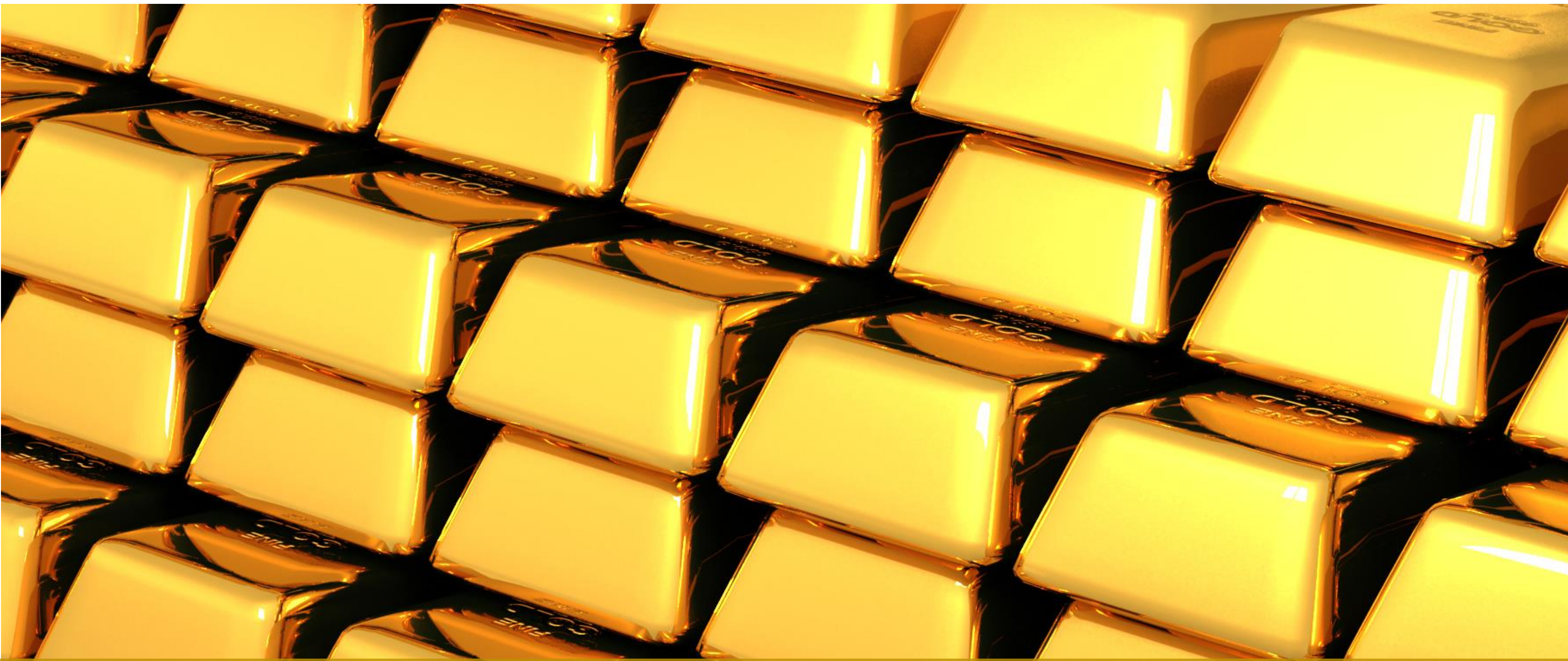
Demand for gold is likely to rise as the world heads towards a multi-currency reserve system under the impact of uncertainty about the stability of the dollar and the euro, the main official assets held by central banks and sovereign funds.

The U.K.'s influential research institute Chatham House or the Royal Institute of International Affairs has said that gold can be used to hedge against currency devaluation and other risks as part of a diversified portfolio.

[17] . 'Gold, the Renminbi, and the multi-currency reserve system' - Official Monetary and Financial Institutions Forum, (OMFIF) (2013) http://www.gold.org/download/pub_archive/pdf/OMFIF_report_summary.pdf

"Gold can serve as a hedge against declining values of key fiat currencies, and can also be useful for central banks looking to diversify their foreign reserves," Chatham House said[18].

[18] *'Gold and the International Monetary System' - A Report by the Chatham House Gold Taskforce*, Chatham House (2012) http://www.chathamhouse.org/sites/default/files/public/Research/International%20Economics/r0212gold.pdf



HISTORICAL RECORD

Besides academic research there is also the historical fact and people's experience of owning gold - both in recent years and in history.

Throughout history, from ancient Greek and Roman times to Europe in medieval times to Germany in the 1920s and many other countries in the 20th century, gold has protected people's savings and wealth from the debasement of paper currencies and from the scourge of inflation.

Gold's portability has helped people to protect their savings and create new lives for themselves in other regions or countries. From Jewish refugees fleeing Nazi Germany to Vietnamese boat people fleeing the war in Vietnam - gold has protected.

Some of the many times when gold protected people's wealth in just the last 100 years are - Germany in the 1920's, much of the world in the Great Depression in 1930's and during World War II, China in 1949, the western world in the 1970's, the USSR in 1990, Argentina in 1989 and 2001 and Zimbabwe in 2008.

Indeed, since 2007 and the global financial crisis, people in Ireland and indeed much of the western world who own gold have protected and grown their wealth. Last year, gold protected people in Cyprus from bail-ins and the deposit confiscation.

CONCLUSION

"The possession of gold has ruined fewer men than the lack of it"

Thomas Bailey Aldrich

Numerous studies prove that gold reduces overall risk and improves performance by enhancing returns. Gold is unusual as there is no statistically significant correlation between gold and economic data. Gold smoothes the fluctuations in the portfolio especially in highly volatile periods.

Gold is not subject to liquidity risk, its market risk is lower and it does not have any credit risk. In contrast to shares or bonds, there are no liabilities attached to gold and unlike stocks, bonds and currencies, gold cannot go bankrupt or go to zero. Based on this alone, gold is important for reasons of diversification.

The fact that there is no counterparty risk associated with owning physical gold is one of the unique features that make gold optimal portfolio insurance and a vital diversification.

The empirical evidence as seen in the academic research, independent research, price performance over the long term and the historical record shows gold is a safe haven asset over the medium and long term.

Gold protects people from economic turbulence and turmoil. This was seen in every decade in the last 100 years and again in recent years.

Typical investor allocations to gold remain very low and the vast majority of investors still have little or no allocation to gold. This places significant capital at risk and creates unappreciated exposures and risks.

The evidence in favour of a continuous strategic allocation to gold has been growing for some time and gold's benefits in an investment portfolio is slowly being reappraised.

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ABOUT GOLDCORE

GoldCore are respected international bullion dealers who are experts in the execution and logistics of the highly specialised precious metals market.

GoldCore have been providing precious metal investment solutions for an International client base since 2003. Today, our team of experts service all investor classes from private individuals to companies and institutional investors. Whether you are a small or large investor looking to take delivery or arrange for secure, trusted insured storage, GoldCore has a solution to suit your needs.

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