GOLD – Never say never!

Some of our interested readers may well remember our commentaries on the subject of gold from the years 2006 and 2009. At that time, we were very close to being carried away and saying "never". But today, our Swiss and Euroland clients now find gold in their portfolios after all.

A contradiction in terms? Only at first sight. Since, even though under no circumstances would we wish to advocate a "this time it is different" view, there have nevertheless been significant changes in the environment since then which have led our Investment Committee to reconsider its position. The latest of which was the decision by the European Central Bank (ECB) in favour of a Super-QE[1] to the tune of 1,140 trillion Euros or more. For the 18 months up until September 2016, the ECB will buy sovereign bonds and other securitised debt to the tune of 60 billion Euros a month. Moreover, all this with an option to extend the action should the goals of growth and inflation be not yet achieved by that point in time. Just prior to this announcement, the Swiss National Bank (SNB) removed the cap on the Swiss Franc-Euro exchange rate. The printing presses where running flat out.

As a consequence of both these measures, money market interest rates in the respective currencies are now below zero. With that, cash has turned into an expense factor for investors rather than the hitherto source of income. And gold, as the ultimate reserve currency, has therefore lost its disadvantage of lacking an interest income vis-à-vis these paper currencies. This is therefore a sort of balancing out or level playing field.

In short, the opportunity cost for Swiss Franc or Euro investors to own gold today trends towards zero, or even into the negative.

This on its own was reason enough for our Investment Committee to approve a 3% position in gold for our Swiss Franc and Euro mandates in January.

During times of geopolitical tension and high government deficits, we are willing to chance the bonus of a free option on "a controversial, anti-establishment investment"[2]. Since, as the former Fed chairman Alan Greenspan already expressed in 1966, a budget deficit is nothing but "a scheme for the 'hidden' confiscation of wealth. Gold stands in the way of this insidious process. It stands as a protector of property rights."[3] Whereas the already quoted John Hathaway advises us in his first of "Ten Rules for Investing in Gold": "An investment in gold should be based on macro economic considerations. If one expects or fears rising inflation, destabilizing deflation, a bear market in stocks or bonds, or financial turmoil, gold should do well and exposure is warranted."[4]

This package of record low opportunity cost combined with the properties of the ultimate reserve currency, offering security in times of political as well as economic turbulences, makes gold an attractive tactical investment proposition for investors in Switzerland and the Eurozone.

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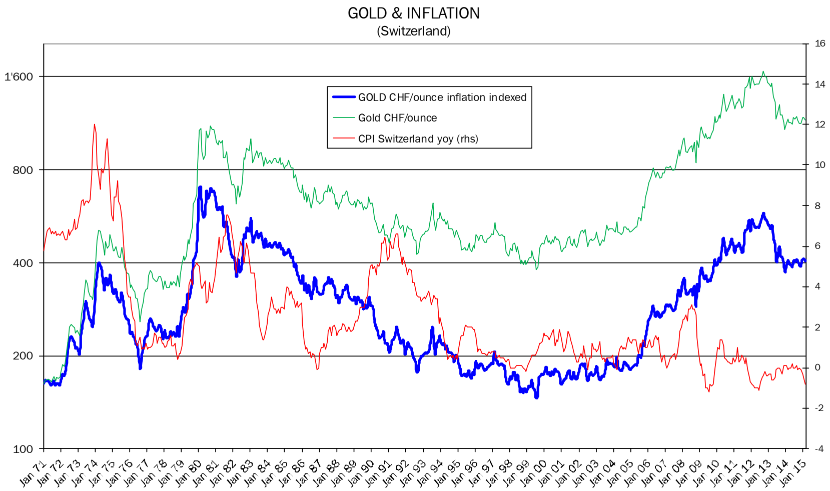

[1] QE = Quantitative Easing, a quantitative or monetary easing (of policy) with the aim to generate growth and/or avoid deflation
[2] John Hathaway, Tocqueville Asset Management

[3] Gold and Economic Freedom, Alan Greenspan 1966
[4] Ten Rules for Investing in Gold, John Hathaway 2001