

Gold's Shine



by: Daniel Zurbrügg, February 08, 2009

We have received a lot of feedback since we first published our gold report article "Why gold isn't shining (yet...)" on November 25, 2008. When we first published our report on gold, the yellow metal was trading at USD 744 and recommended buying gold as it was moving closer to USD 700.



We have seen a strong recovery since then and gold is currently trading around USD 900. In our November report we argued that the rather big selloff last year was caused by a weak U.S. dollar, a deflation of the commodity bubble and investors' need to generate cash. At this time, a lot of investors who purchased gold for security were disappointed and confused because they did not understand what was driving the gold price back then.

In our November report we gave readers an insight view of what was happening in the gold market: Quote Nov. 08 :

However, at the moment, the short-term impact of various factors is out-weighting the positive long-term fundamentals. The reason gold has not performed well in the last couple of months is because there has been massive selling from institutional investors who required liquidity. [This] gives some additional insight into the current crisis and shows how bad the situation is for many. Gold has really been left to be one of the very few assets that can be easily liquidated in order to generate cash. Also, the creativity of the financial industry has resulted in the development of a lot of commodity-linked investment funds. Typically, gold is among a basket of other hard- and soft-assets which are bought by these funds. These funds have all been facing a massive amount of redemptions which have forced fund managers to sell all commodity baskets they are invested in including their positions in gold. They could not differentiate between oil, agricultural commodities, metals and precious metals due to the investment baskets in such commodities, adding more selling pressure on gold.

We continue to experience a lot of demand for gold and have kept our portfolio allocations at almost 25%. We are seeing things that were unimaginable a year ago and are buying substantial amounts of physical gold bars for our clients, normally at their request. Some of them are then flying to Switzerland and visiting their bank in order to take physical delivery of the gold bars and coins just to lock them up in a private safe box. They want to make sure they get the "real" deal, not just some type of investment certificate which might be linked to the gold price, but has also significant counterparty risk.

James Bond's opponent in the 1964 "Goldfinger" movie, played by the famous actor Gert Fröbe, said in the movie that he loves gold for its colour, its brilliance and its divine heaviness. In fact, humans have always been fascinated by gold. Today, investors have even more reasons to hold gold, besides the reasons quoted by Mister Goldfinger. However, we again stress the importance of proper asset

protection, a theme that has developed into a truly “multidimensional” concept. Make sure that your gold investments are in fact backed by physical reserves, only then you get real value in terms of crisis.

We expect gold to trade between USD 820 and 930 for a while and eventually break-out through the USD 1'000 mark later this year.

