GOLD

Words| Stuart Cowan - Investment Director at Ramsey Crookall & Co

Whilst reading last month's issue of "Gallery" where the prominent theme was 'Pirates', I found myself thinking of the many iconic images associated with swashbuckling buccaneers and their cutlasses, Jamaican rum, "pieces of eight" and Spanish doubloons.

The latter was a gold coin weighing about 0.21 troy ounces minted in Spain, Mexico and Peru and, as an investment manager, I was intrigued to find out what the current value of a doubloon would be at today's record price for gold bullion.

Given that gold has recently traded at $1,900 dollars per troy ounce, then one doubloon in sterling terms would be worth £240 or thereabouts and is likely to go higher as gold has been in an uptrend for several years, indeed it has been one of the best performing asset classes for the past eleven years.

What is driving the price, including a spectacular rise of 26% in the year to date? Well basically gold has found itself once again to be the ultimate safe haven as it has always been at times of economic, political or military uncertainty.

Gold has been a measure of stability for at least 6,000 years and is currently proving an effective hedge against both inflation and deflation as one of its strengths is its relatively inelastic supply curve, particularly when measured against paper currencies where more notes can be issued by simply turning on the printing presses.

However, it is when you examine the 'consumers' of gold that some interesting facts come to light. In the second quarter of 2011, 48% of the demand for gold was for jewellery, dentistry accounted for just 1% and gold bars amounted to 22.5%, a sign that Central Banks have started to buy again, presumably to diversify their reserves. Coins and medals accounted for a hefty 9% of production, perhaps there is still a demand out there for the Spanish doubloon?

For investors there are ways of investing in gold which do not involve renting a safety deposit box in the middle of Europe or underpinning the floors of your house to accommodate all those heavy and bulky bars. They are called Exchange Traded Funds and they allow you to invest in the physical metal without taking delivery of it. The funds, known as ETFs trade freely on all the major stock exchanges including London and offer investors liquidity and security.

For all its obvious attractions gold does not offer an income and, in my opinion, should form just a part of a diversified investment portfolio even at a time of economic uncertainty.

For further advice on investing in gold contact a registered and reputable independent investment adviser, stockbroker or investment manager who will be pleased to assist you.

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