

# ETFs Trade idea

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## Why aren't you looking at Gold?

**Product in Focus: ETFS Physical Gold**

**Ticker: GOLD**

- GOLD
  - 100% physically backed
  - Highly recommended by Lonsec
  - Recommended by Zenith
- Key features of Gold:
  - Can materially reduce risk in portfolios
  - The best-known hedge against contractions in the business cycle and geopolitical events
  - Outperformed cash since the 1800s
- Global trends around Gold investment:
  - Global Gold ETF investment flows have moved to positive for three consecutive months
  - Central banks have increased buying of gold to the highest level since the end of 2015



Gold is the world's oldest financial asset and has been used for centuries in transactions and as a store of value. However, many Australian investors are hesitant to allocate assets to gold, with the lack of yield being a common concern. We believe investors should consider the role of gold in a portfolio, particularly with the recent volatility being experienced across the globe.

### Key features of gold

#### 1. Gold can reduce the risk of a portfolio

The most efficient portfolio is one that takes the least risk while making the highest return. Risk can be reduced by diversifying across and within asset classes based on low or negative correlations. Gold has low or negative correlations with traditional asset classes making it ideal as a risk reduction tool.

Gold	Correlation coefficient
S&P 500 Index	-0.28
MSCI World Index	-0.25
Bloomberg Barclays Global Aggregate Bond Index	+0.45
US Dollar Index	-0.44
AUD/USD exchange rate	+0.14

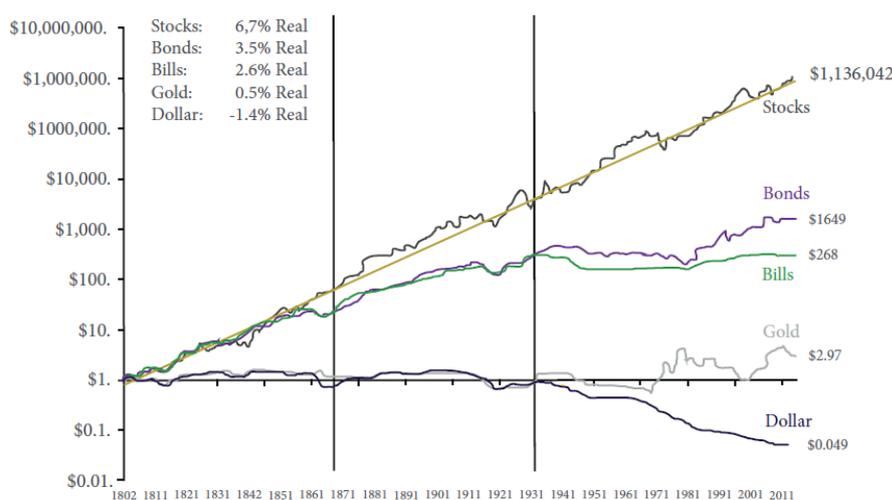
Source: Bloomberg data as at 31 December 2018. Correlations are calculated on weekly returns over 10 years.

## 2. Gold has outperformed cash since the 1800s

In a review of every major US asset class, Jeremy Siegel, a professor of finance at the University of Pennsylvania, found that gold provided investors with a real return of 0.5% from 1802 to 2016. He found that while gold was beaten by bonds and equities, gold outperformed cash, with cash delivering a negative real return of -1.4%.

Total Real Return Indexes

January 1802 - December 2016

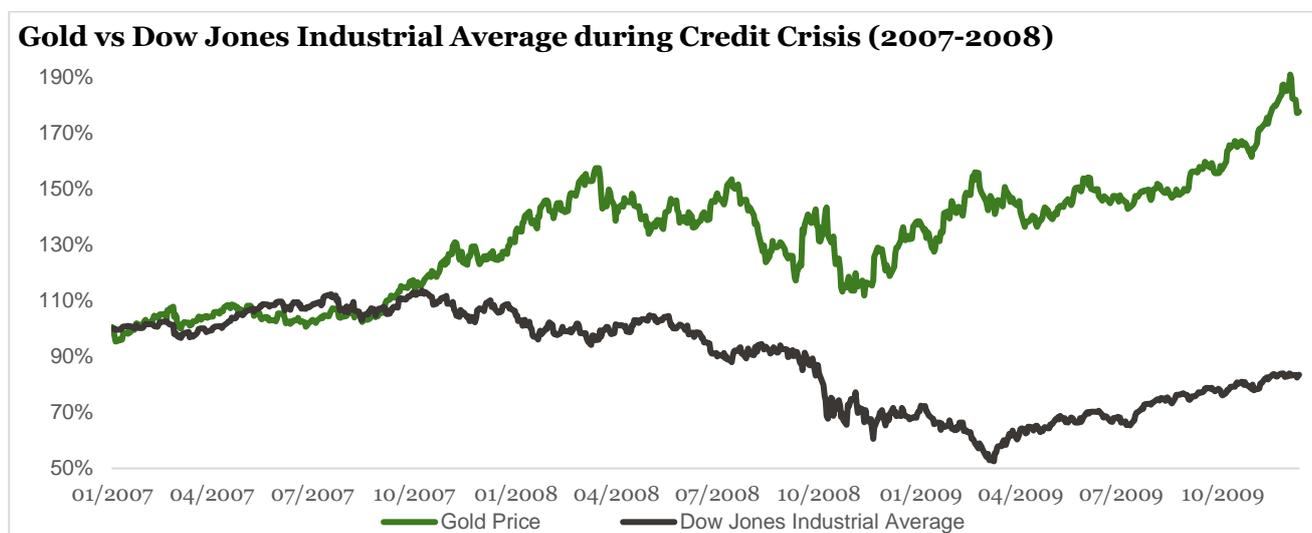


Source: Singel, Jeremy, Stocks for the Large Run (2014), With Updates to 2016

## 3. Gold acts as a hedge against geopolitical events

Gold has had an historical tendency to rise during times of crisis and turbulence. This means gold can provide something like an 'event hedge' – or the chance to reduce the impact of 'black swan' type events which, while relatively uncommon, can have a strongly negative impact on a portfolio.

Taking the well-known example of the GFC (below) it can be seen that the difference between gold and the equity markets one year on from the credit crisis was 35% in favour of gold.



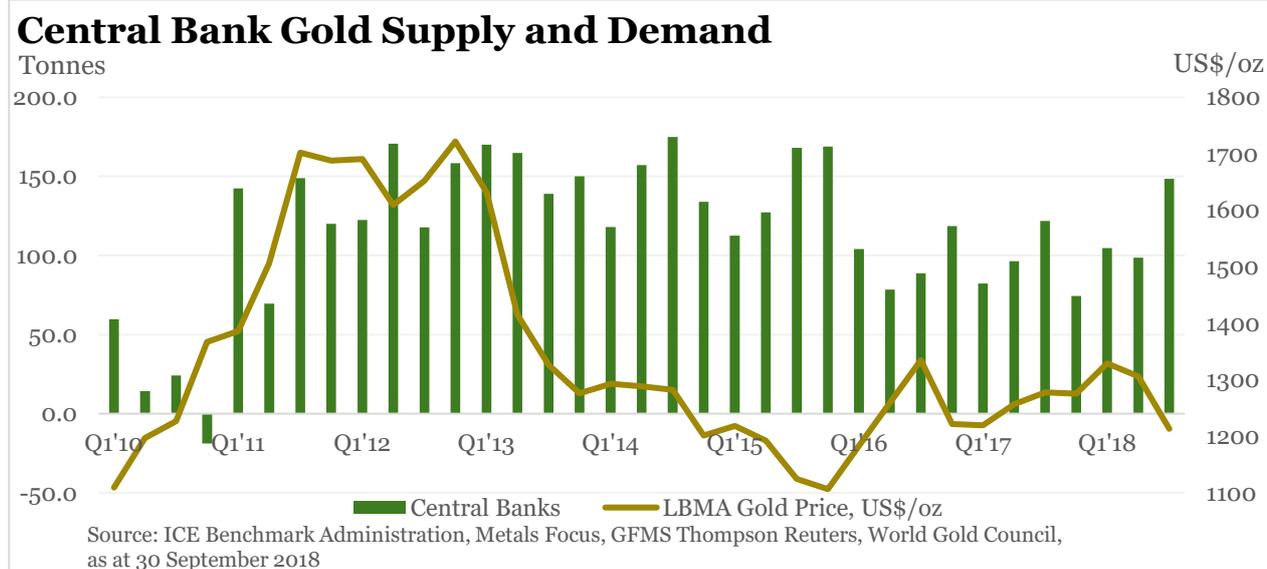
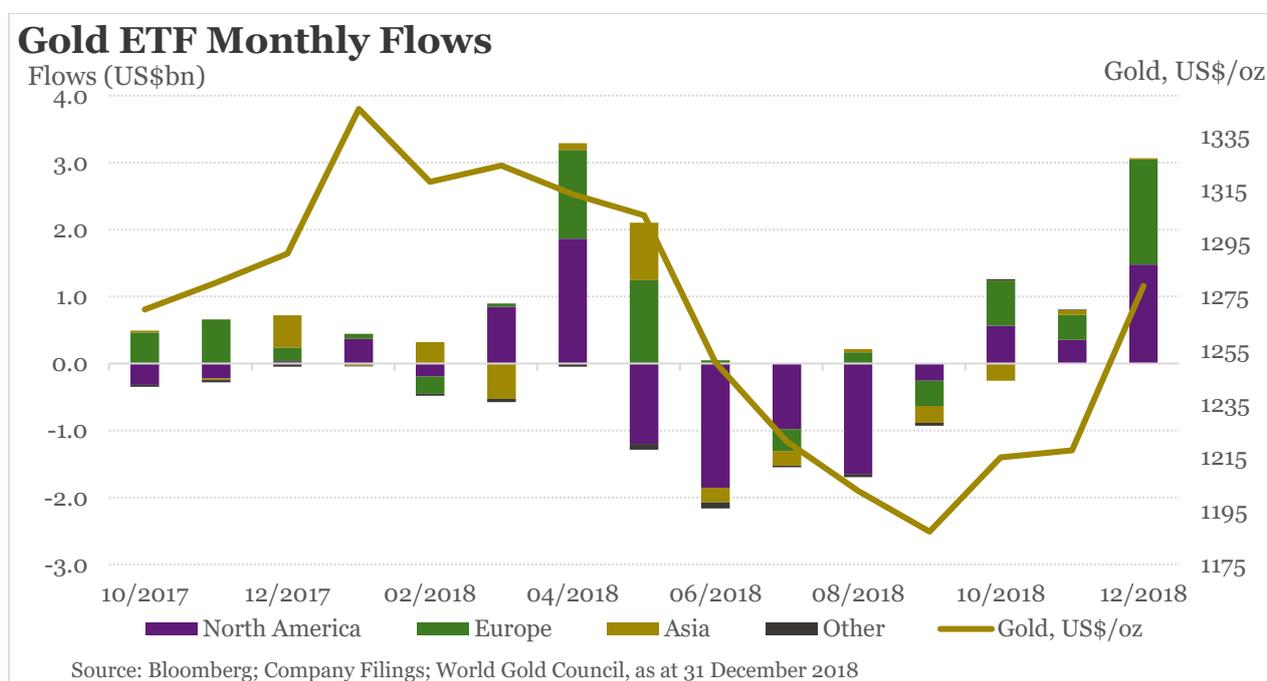
Source: Bloomberg

## Global trends of Gold investment

Recent global movements have shown many investors are reallocating to gold. On this front Australia is lagging behind global trends with other regions showing a greater propensity for an allocation to gold.

We have seen this increased appetite for gold emerging on multiple fronts:

- Gold ETF investment flows have moved to positive for three consecutive months (October-December) with 3% growth in ETF holdings in 2018
- The total value of global gold backed ETF holdings is now over \$100bn for the first time since 2012
- Central banks have increased their buying of gold to the highest level since the end of 2015



## What does gold look like in a portfolio?

To demonstrate the effect of gold in a portfolio we have simulated the past performance of a series of Vanguard “LifeStrategy” funds with and without a 10% allocation to gold. Simulations were run over a 15-year period (since inception of ETFS GOLD).

These funds provide an all-in-one portfolio made of globally diversified blends of equity and bonds (proportion equities & bonds indicated in charts below). In every case, the portfolio including a 10% allocation to GOLD outperforms and has lower beta and standard deviation indicating a lower risk.

Based on this it’s clear gold does exactly what it’s meant to do from an investment perspective and we believe that many Australian investors are ignoring these risk reduction properties.



Source: Vanguard, Bloomberg, November 2018. Past performance is not an indicator of future performance.

	High Growth	High Growth + GOLD	Growth	Growth + GOLD	Balanced	Balanced + GOLD	Conserv	Conserv + GOLD
<b>CAGR</b>	8.0%	8.2%	7.5%	7.6%	6.7%	6.84%	5.8%	6.0%
<b>Std Dev</b>	12.3%	10.9%	9.4%	8.4%	6.6%	6.2%	4.0%	4.2%
<b>Max Drawdown</b>	-45.5%	-37.2%	-35.2%	-27.5%	-24.3%	-17.5%	-11.8%	-6.8%
<b>Beta</b>	0.87	0.79	0.77	0.70	0.67	0.62	0.58	0.54
<b>Sharpe Ratio</b>	0.93	1.05	1.14	1.26	1.43	1.54	2.05	1.96

Funds are all Vanguard LifeStrategy

Source: Vanguard, Bloomberg, November 2018

## **Conclusion**

Gold is the oldest known store of value and has been continuously used for this function for centuries.

We have demonstrated above the key features of gold that make it an appealing option for some investors. Gold's low and negative correlations with other asset classes have seen it perform as an effective hedge in previous bear cycles and during global geopolitical events that have negatively affected other asset classes. Simulated data also demonstrates how this diversification can function in a hypothetical portfolio to reduce risk and increase returns.

## **ETFs Physical Gold Factsheet**

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