

Publication: Afternoon Dispatch & Courier

Headline: Gold: The Evergreen Yellow Metal

Edition: Mumbai

Date: 30th May, 2011

Coverage –

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Gold: The Evergreen 'Yellow' Metal

They say that all that glitters is not gold. True indeed, but much of it is gold. It has been considered a precious metal for centuries and battles have been won and lost over it. Because of its many uses when compared with other metals, the demand for gold is high which of course, drives its price even higher.

Irrespective of age and risk profile, one should have at least 10 per cent allocation to gold. Gold is a precious metal and will always remain in short supply.

From an investment point of view, gold is undoubtedly the best choice. Its value will always go up and on occasion, the increase in the value of gold has been as much as one hundred percent over a relatively short period of time. And because of predatory income tax laws, there are those who prefer to keep their gold investments to themselves – and for these people, gold is the best investment.

Whatever real capital appreciation that gold will have in the next few years is of lesser importance. But what is vital, is that physical gold stored outside the banking system is the ultimate form of wealth protection both against a deflationary collapse and a hyperinflationary destruction of paper money.

Gold traded in a narrow range in Europe on Wednesday morning when investors cashed in on recent price rises, while the US dollar rose against the euro on mounting worries that Greek debt problems could spread to other European countries.

The difficulty is in determining just where will gold prices go from here. In the short term we are of the opinion that gold will continue to consolidate with some erratic moves in both directions. The months of June, July and August have been slow moving historically and we could be in for more of the same.

However, its not a given as many parts of the world are experiencing turmoil at the moment, either politically, economically, or environmentally. The next Black Swan event could make an appearance early and change the financial landscape almost immediately, just as the rapid increases in margin requirements knocked the stuffing out of gold prices.

(A Black Swan is an event or occurrence that deviates beyond what is normally expected of a situation and that would be extremely difficult to predict. This term was popularized by Nassim Nicholas Taleb, a finance professor.)

One such event could be a similar assault on gold prices which would no doubt have a knock on effect on silver.

However the demand for gold, both by the industrial users and the investment community is strong and growing as suspicion grows regarding the credibility of the fiat currencies. Gold will remain well supported in the short term and small-scale safe haven buying, and also in the absence of a substantial pick-up in physical demand.