Bulletin – Gold & Silver

October 2017

Almost everyone knows at least one person who swears by gold as an investment asset. Gold is not a bad investment per se, but is best used as a hedge against inflation and the US Dollar. Gold is priced in US dollars, so the two are inversely correlated; if the US Dollar falls, the price of gold will rise (along with several other commodities priced in USD). Gold is also a place to park money for safety in the case of global instability and there would be a "gold rush" should the US look like it was heading for financial collapse (which it isn't at this time).

We are currently in a rate rising environment. The US Federal Reserve and the Bank of Canada are both carefully measuring removing fiscal stimulus and raising interest rates due to strong macroeconomic indicators. We are not looking at runaway inflation but central banks are looking to keep it that way which will result in measured rate increases.

This does not bode well for gold. As it is a safe haven asset, if the US and other economies are doing well and raising rates (elevating currencies), the need for safety beyond government bonds and the US dollar will fall. This is not to say that gold is in for a precipitous decline, but rather that it will likely trade slowly downward or flat. The only money to be made in gold would be in high frequency trading on financial and world events in very large denominations, which is usually beyond the scope of the individual investor.

Gold does hold it's value over time, however, due to it's inflation hedging property. As with most developed nations, the US would like to see at least some inflation so provided central banks keep this posture gold can be expected to return about 0-2.5% over the long term horizon (>10 years).

Silver tends to track gold as it is also a speculatively traded precious metal which is cheaper. While both have industrial uses, speculatory purchases make up the bulk of the market.

Commodities in general have been firming up from extraordinarily soft times as major global economies have recovered. Steel, nickel, and other metals with more industrial uses will benefit more in this regard than those traded largely on speculation.

While gold (and silver) is not a bad investment as part of a balanced portfolio, at the current time it is not something to be overweight in at this time. It is better to be underweight in gold and overweight in either industrial metals or the companies that use them. Palladium, for example is on the rise, which is most often used in catalytic converters for autos.

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