Understanding Gold Investing

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The views expressed herein are the presenter's and do not necessarily reflect the views of Indian River State College, its faculty or its staff.

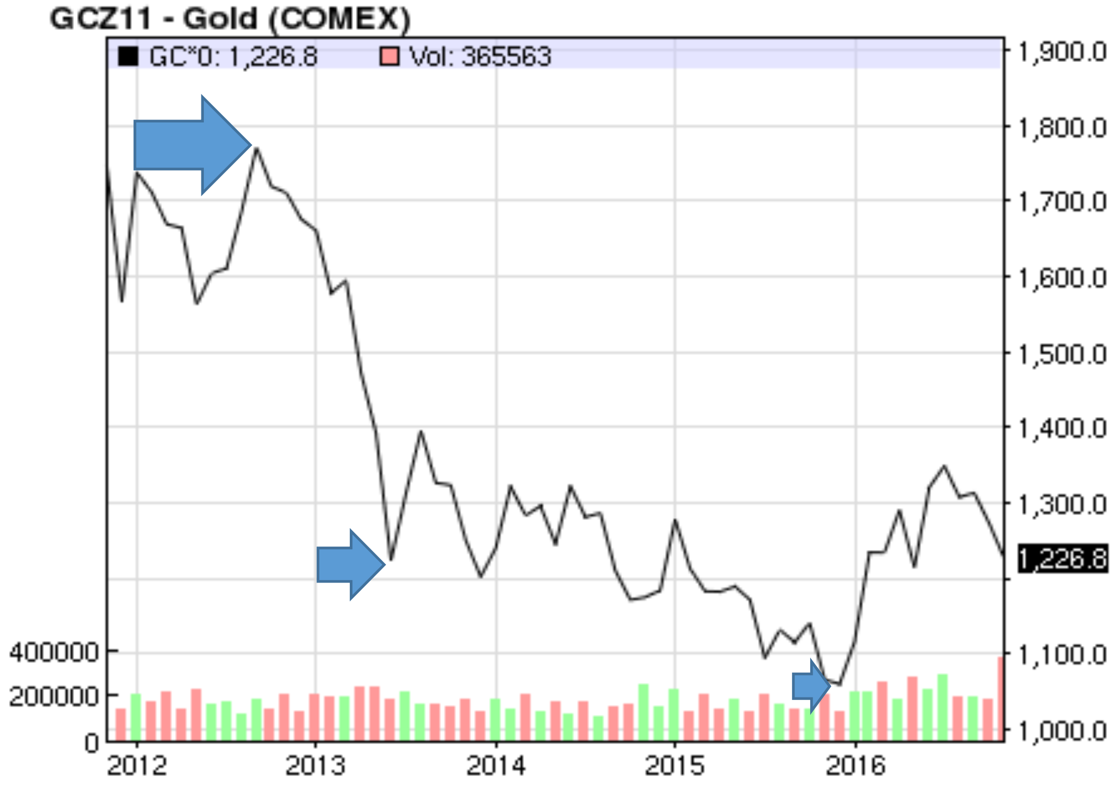
Why invest in Gold?

- One thing Gold should not be:
    - A core Investment or a majority position of your Wealth

    - As an advisor, I would only recommend Buying gold if:
        - You have to buy your wife jewelry
        - Or Wealthy enough to make it a small part of your Investment Portfolio

        - **Way to Risky** – perfect Example:

	Return
Buy in August of 2012 at High - $1,774 oz.	
Sell in June of 2013 (1 year) - $1,286 oz.	-27.5%
Sell in December 2016 at Low - $1,062 oz.	-40.0%



Why Invest in Gold?

- Gold is a great tool for Diversifying or Hedging your Portfolio
    - **Diversifying** - adding an Asset Class with different Return Characteristics
        - Valuable strategy as your Assets grow

          and you get Older.

    - **Hedging** - investing in as asset that has Offsetting Relationship to Current Assets
        - Gold can act as an Insurance Policy when Markets are in Flux from Uncertainty

Factors of Uncertainty
>> spawns Fear/Panic

- Geopolitics – i.e.: Middle East Tensions/Wars

- Central Bank Stimulus – i.e.: Quantitative Easing (QE1, QE2)

  USA and European Union expanded Money Supply, Debt

- Global Economic Weakness – less consumer Demand

- Chinese Economic Contraction - has been fastest growing Big Economy

- Interest Rate Policies of Central Banks – manipulation to Control Economy

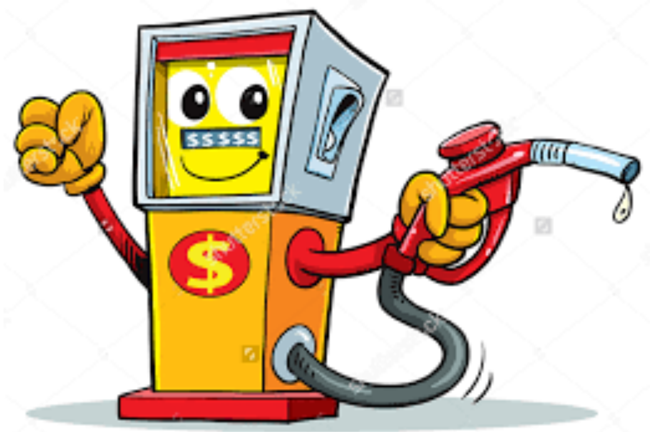
Understanding Gold and what is behind its Price Moves

- **Supply and Demand of Gold**
  - Gold does not have the normal characteristics as other Commodities

Gold acts more like a Currency – Monetary Asset

Its not Consumed like other Commodities

i.e.: Coal & Oil (Burned), Wheat & Cattle (Eaten), etc.



Supply of Gold (physical)

- Physical **Supply** Changes based on Mining has no Significant Effect
  - Mining adds on average only 1% to the supply each year
    - Mine Strikes (work stoppage) or Discoveries are too miniscule to Count in the Overall Picture of Price Changes

    - Example how small it Mining is:
      - London Gold Market trades "Yearly Mined" Volume in less then a week.

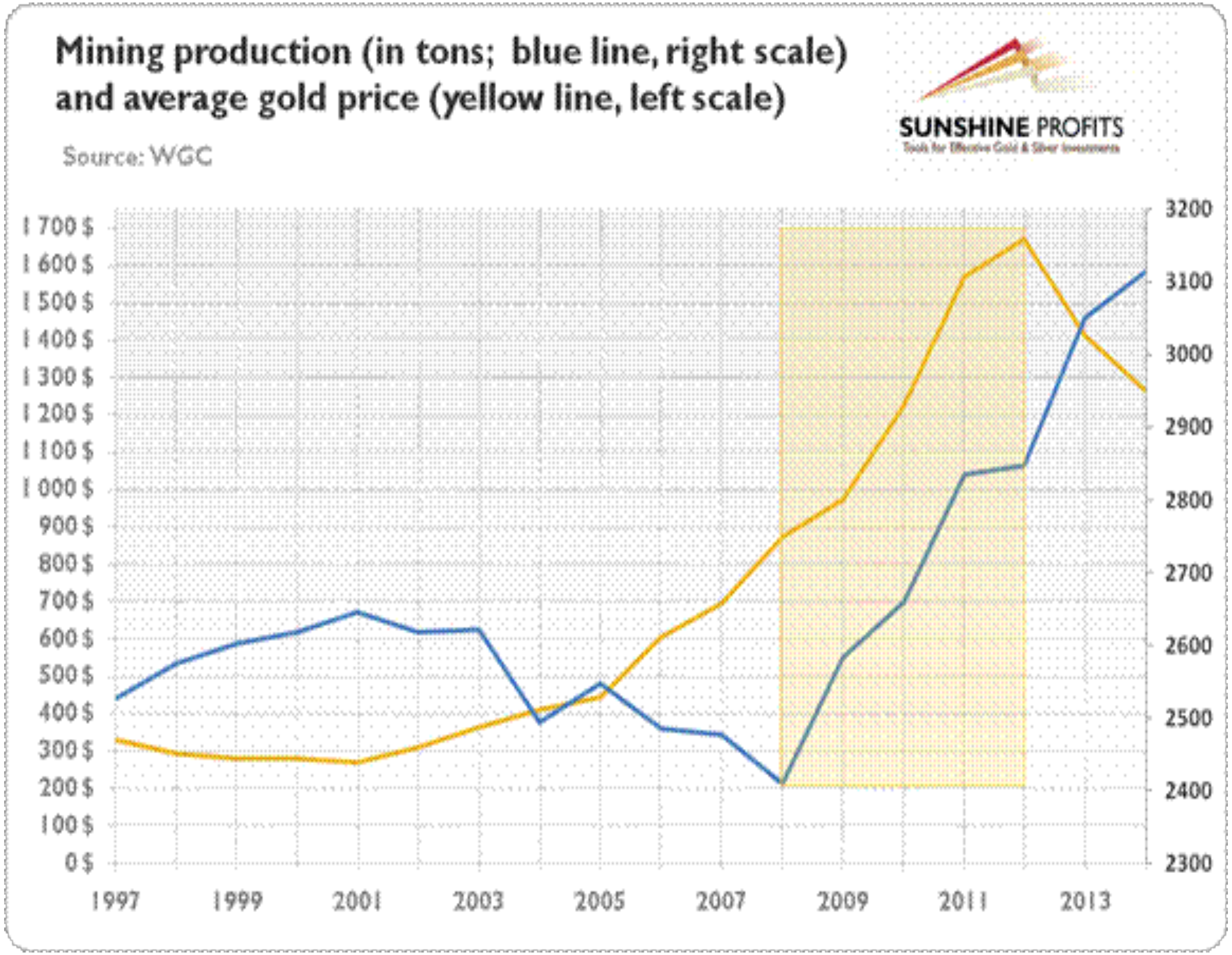
  - Scrap Supply (sourced from old existing, and melted)
    - Almost all Gold ever mined still exists in some Form (never consumed)
      - Again, nothing Significant to effect Price Changes

Supply of Gold (physical)

Chart to the right shows:

From 2008 to 2012 (Shaded Area)

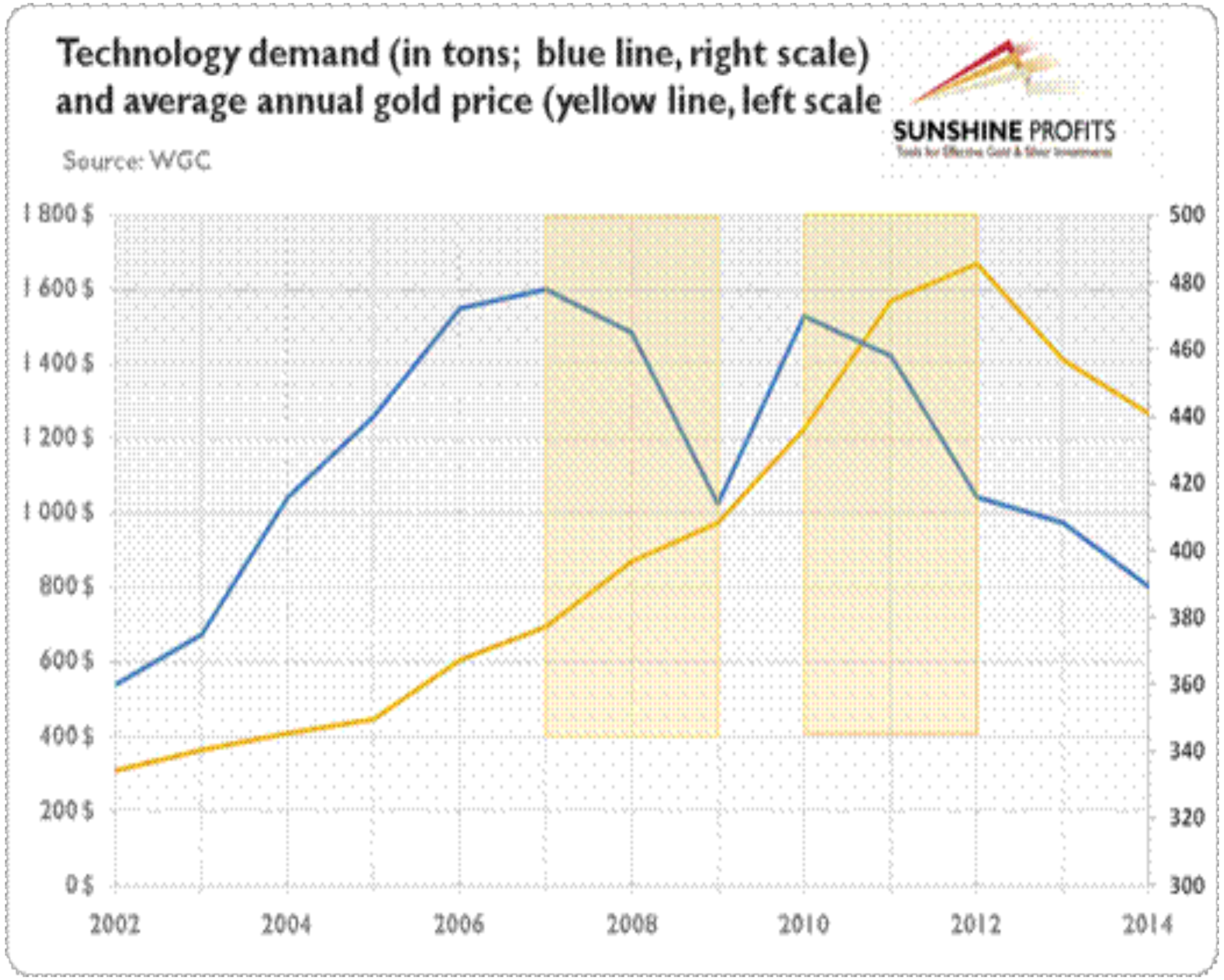
- Price keeps increasing as Supply from Mining keeps Increasing
- Opposite of Ordinary Commodity Price Action
- As Supply Increases, no Significant effect on Price



Why the Supply and **Demand** (Physical) doesn't Matter?

- Chart on Right shows:

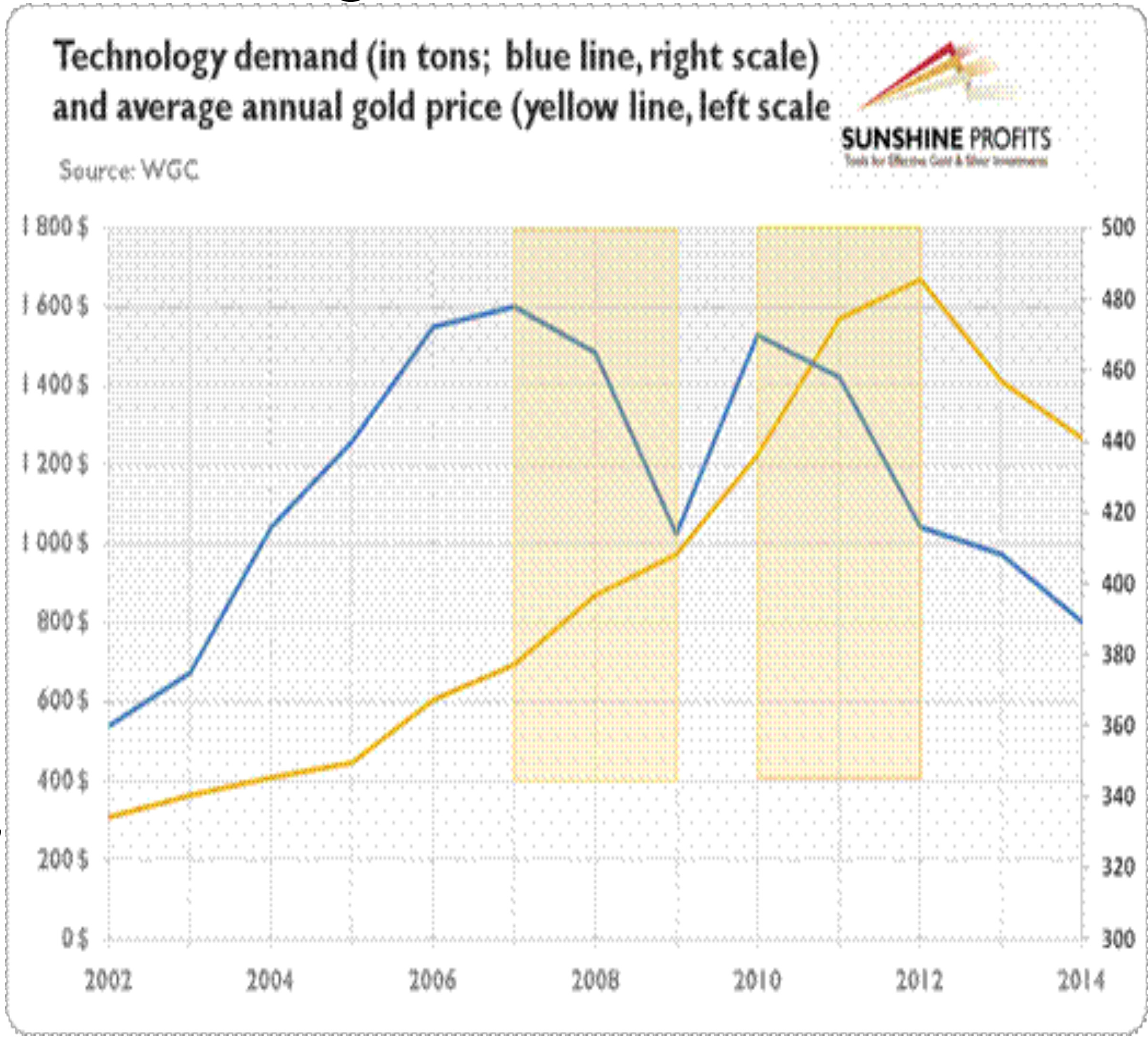
- From 2010 to 2012 (shaded area)
  - Prices Increasing as Demand Decreases
  - Opposite of Ordinary Commodity Price Action
  - Same period as previous Supply Chart showing increased Supply and Pricing



Demand of Gold (physical)

- Demand (Retail Consumer) – changes minimal and steady, it also prove to have no Significant effect on Price Change

- Chart as seen on previous page:
  - Price in shaded area (yellow line) increases with decreasing Demand (Blue)



- Retail Consumers (who is Demand):
  - Technology usage
    - i.e.: Electronic/Computer Equipment
  - Jewelry Demand
  - Coin Investment
  - ETF Demand – Electronic Traded Funds, Fund that buys/sells Gold Bullion

These Supply & Demand Stats (Physical) are Useless!!

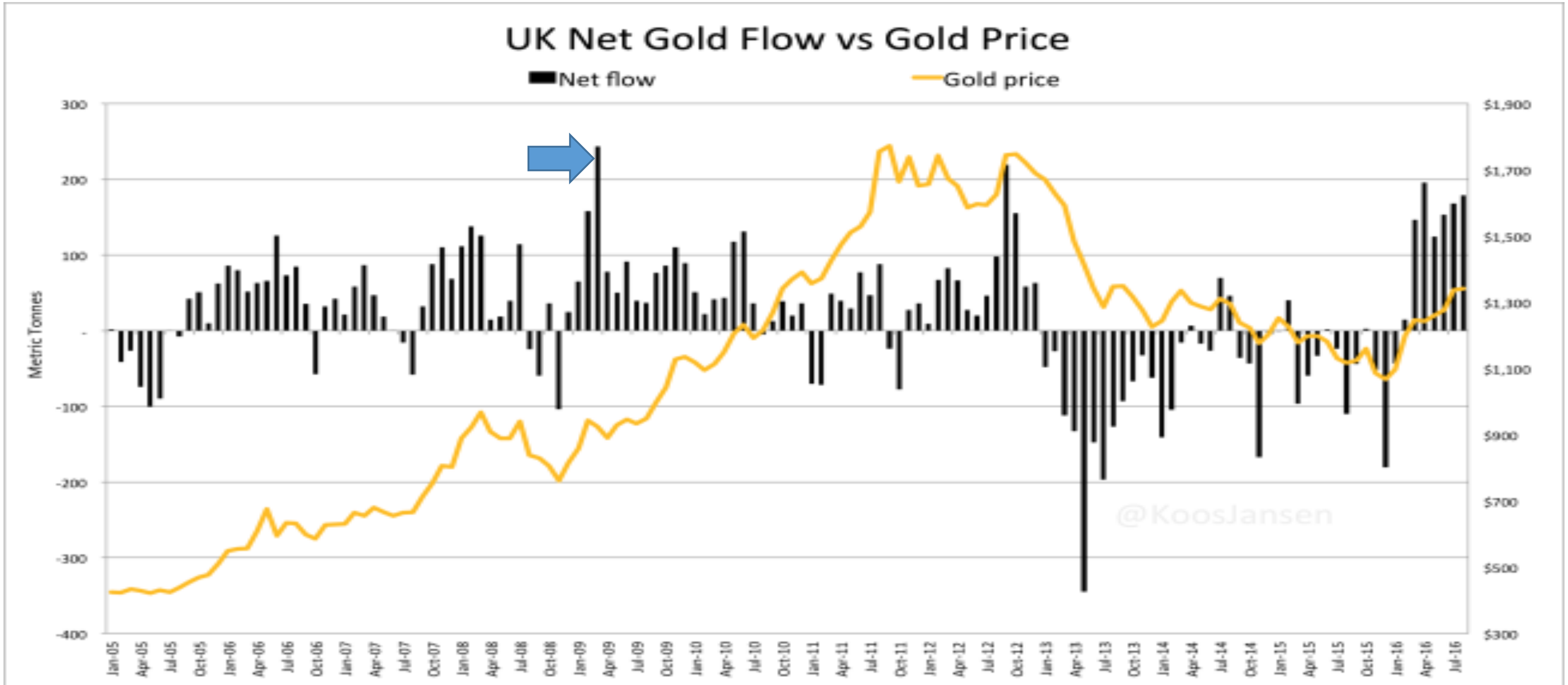
- Consulting Firms like Thomson Reuters & World Gold Council only provide Gold supply and demand statistics that are easy to measure.
- These Statistics show little Significance on True Price Change in Gold.
- Analyzing this Public Data can give you no Clear Picture to accurately forecast Future Price Changes.
- So what do the Professionals Economic Forecasters do?

The Most Important Factor on Gold Price Change is INSTITUTIONAL SUPPLY & DEMAND

- Institutional S&D can be defined as: Trade in Gold Bullion between High Net Worth Individuals and Institutions.
    - Bullion Bars usually between 100 oz. or 400 oz.
- Institutions consist of:
    - Investment Banks
    - Hedge Funds – speculation
    - Mining Conglomerates – hedging inventory
    - Central Banks
    - Mints
- London is Biggest Market (NY & Shanghai follow) for Gold Trading
    - London is where Gold Price Discovery happens
    - Accounted for 88% of gold trade in 2015
    - 90% of the London Trade is Spot (Settled Immediately)
    - UK has no Mine Production, no Refineries

UK net Flow (Imports-Exports) we get a sense of Western Institutional Supply & Demand

- If UK is a net Importer – Import Demand greater then Export Supply (Importing Positive Flows -) London is Buying
  - That Signals a net pull on Inventory – Price Higher (more buyers then sellers)



What we need to Know about UK net Gold Flow

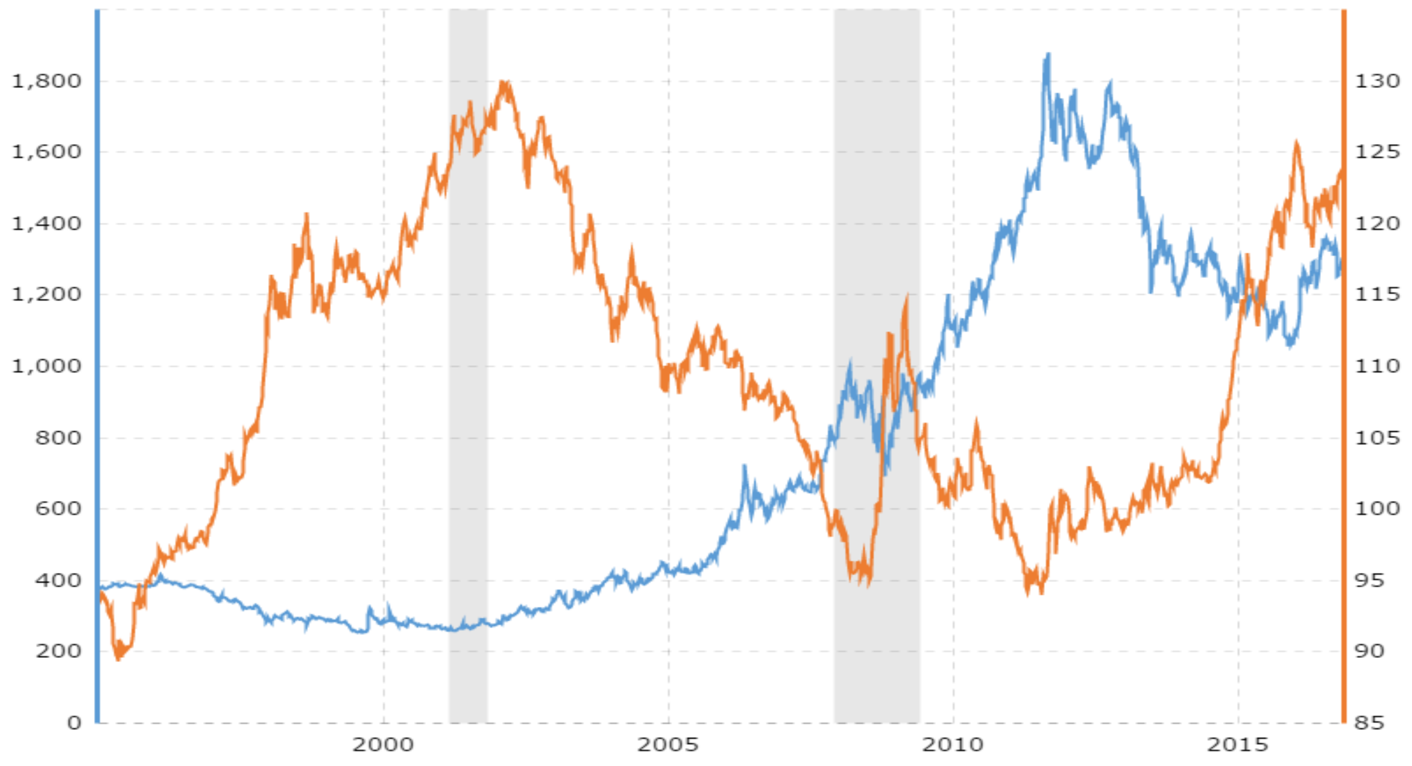
- In the previous chart we observe an amazing correlation.
- UK (largest market) is
  - Net Importer on a Rising Price
  - Net Exporter on a Declining Price.

London Institutional Insiders control the market.

  - Insiders Forecasts on Uncertain Economic Forces controls price Discovery.

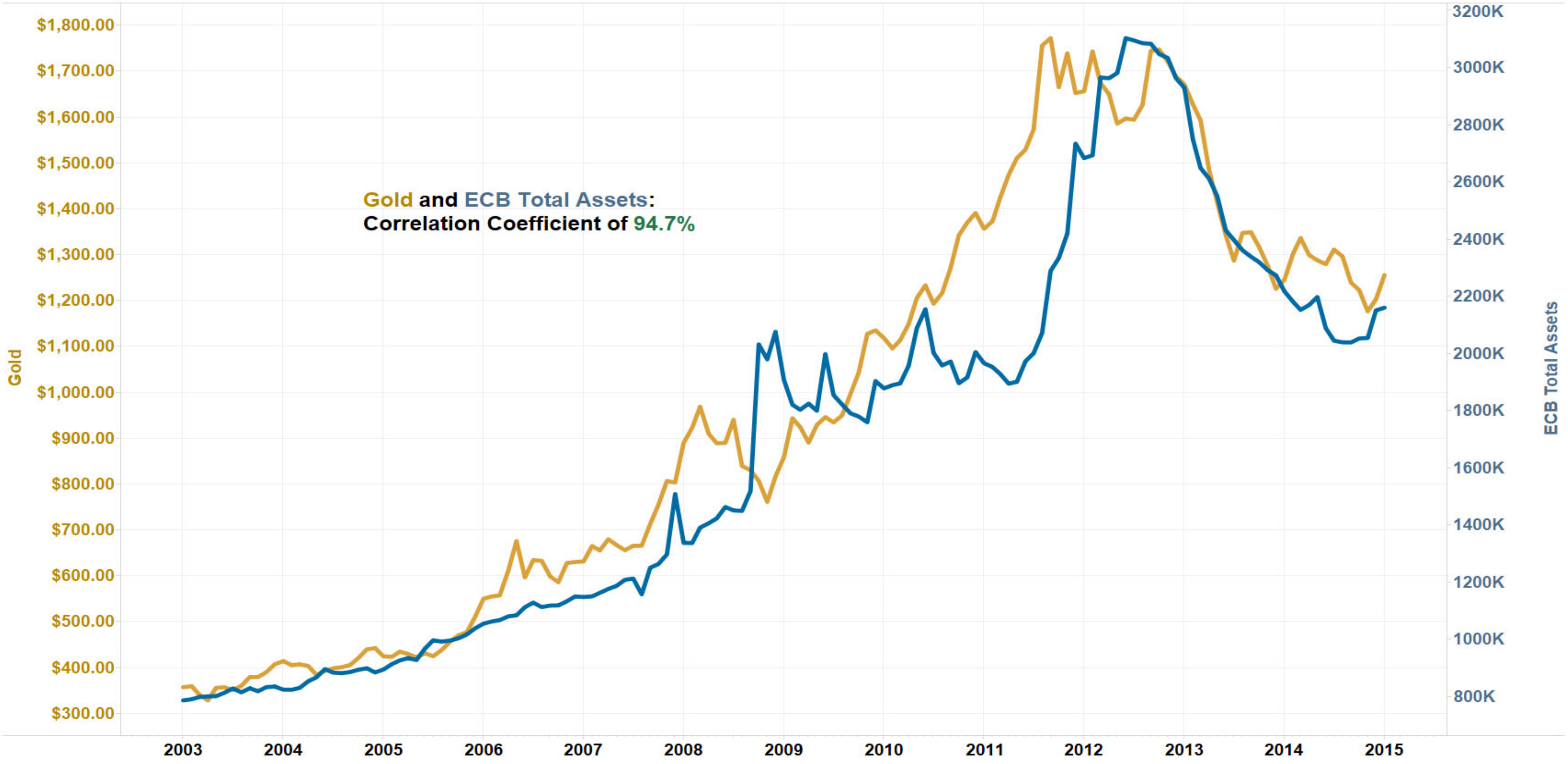
Conclusion: No one can fight the Insiders

- What to do with your Money?
  - If you have enough money to Diversify and Hedge, consult your advisor and decide on an Allocation.
  - Have a Reason to Buy or Sell (short) Gold
    - Strong Dollar because US Economy is will Outperform World Currencies
      - Gold – Orange line   Blue -   US dollar index



Gold and European Union (ECB)

- Gold has a 94.7% Correlation Rate with the ECB Total Assets
- Strategy -> if you think US dollar will be Stronger, Euro Weaker
  - Short Gold - and Confirm Investment by looking at UK Net Gold Flows (Imports minus Exports)



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