

The Atlantic GOLD & SILVER CENTRE

MAY 2015 NEWSLETTER

Why Precious Metals are important for your portfolio.

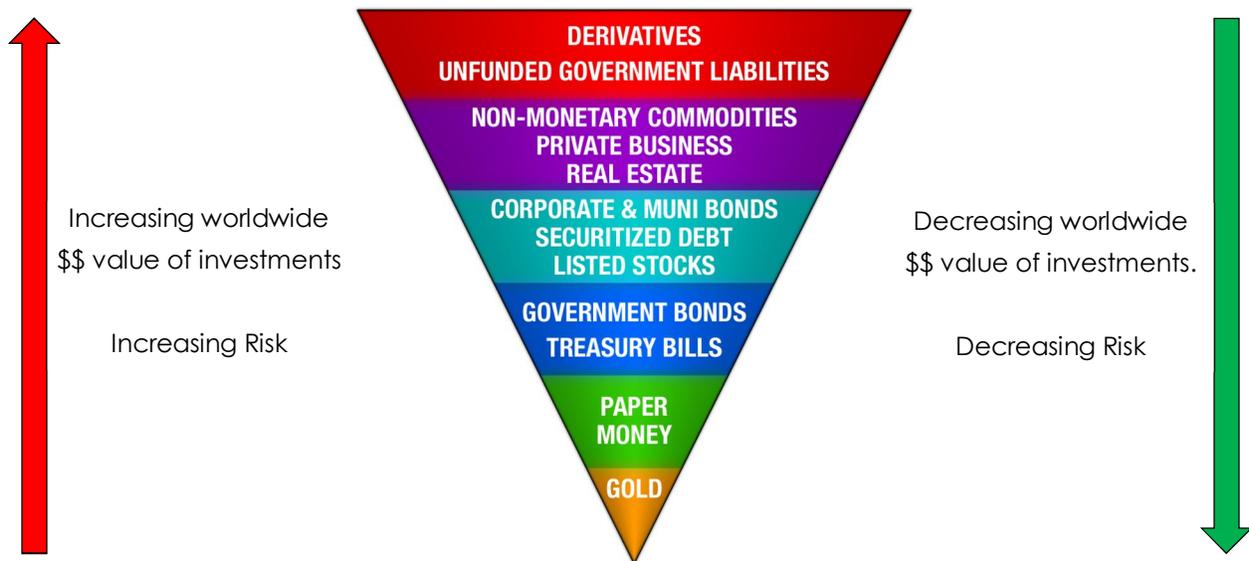
Written by David Ford

Given the quiet markets of late, and the stabilization of prices, we thought it was worth re-visiting why having Precious Metals in your portfolio is such a great idea !

Gold underpins the financial system.

As we look at the multitude of financial instruments available today (Stocks, Bonds, Currencies, Commodities, Mortgage Backed Securities, Futures, Options, etc.) many are blissfully unaware of the overall structure of this financial landscape, and how it is all founded on Gold.

We are indebted to John Exeter, an American Economist, who simplified into one chart what other economists took thousands of words to describe. This is known as "Exeter's Pyramid" ⁽¹⁾



In the above scheme, Gold forms the small base of most reliable value, on which all other asset classes have been built. Assets on progressively higher levels are increasingly risky, and the larger sizes indicate the increasing notional value of those investments available worldwide. It is common knowledge, for example, that more dollars in 'paper gold' derivative contracts change hands every day than actual gold mines produce in a year ! ⁽²⁾

Governments and their Paper Money come and go.

We have lived in a period of relative political and financial stability in the 'West' for the last 50 years. This has led many to complacency about the future. The current system is all we have experienced in our lifetimes, and many are unwilling, or unable to accept that change may soon be upon us. A look at the history of paper money provides a salient point !

Currency was...	No. Of Currencies	Description
Ended through monetary unions, dissolution or other reforms	184	Voluntary monetary unions such as the Euro in 1999, or creation of the US dollar in 1792.
Ended through acts of independence	94	Acts of former colonial entities renaming or reforming their currency
Destroyed by hyperinflation	156	Currency destroyed through over-issuance by the government.
Destroyed by acts of war	165	Currency deemed no longer valid through military occupation or liberation.

(3)

..and a look at the purchasing power of the USD confirms the track we are currently on !

Purchasing Power of the US Dollar Since 1774



(3)

You need to ask yourself the unthinkable question – What will happen to my savings & investments if the currencies underpinning them all starts to collapse ?

The Threefold Benefits of adding Precious Metals to your portfolio.

There are 3 BIG principal benefits to adding physical gold or silver to your investments.

- i) Diversification
- ii) Inflation Protection
- iii) Reducing Systemic Risk

We will deal with each in turn.

i) Diversification

The future is always uncertain, and so it is common wisdom to diversify your interests and avoid keeping 'all your eggs in one basket'.

Precious metals have a very low correlation to other asset classes such as stocks & bonds. You might expect that when stocks do well, or bonds do well, or even when the USD appreciates, that Gold would do badly. Over the very short term, these patterns do appear, but as you look over several years, you find that there is very little correlation ⁽⁴⁾. The chart below shows correlations of various financial instruments. A value of 1 = high correlation, -1 = high negative correlation, 0 = no correlation. Gold has a correlation of close to zero for most of the major asset classes (Large Caps, Small Caps, Commodities, REITS) and only low correlation to Oil & Bonds.

	TIP	GLD	AGG	EMB	USO	GSG	VNQ	RWX	EEM	EFA	VB	VV	
iShares Barclays TIPS Bond Fund	TIP												
SPDR Gold Shares	GLD	0.01											
iShares Barclays Aggregate Bond	AGG	-0.01	0.22										
iShares JPMorgan USD Emerging Markets Bond	EMB	-0.01	0.21	0.28									
United States Oil	USO	-0.00	0.25	-0.17	0.25								
iShares S&P GSCI Commodity-Indexed Trust	GSG	0.94	-0.00	-0.03	-0.01	-0.01							
Vanguard REIT Index ETF	VNQ	-0.02	0.10	0.00	0.33	0.18	-0.02						
SPDR Dow Jones Intl Real Estate	RWX	0.02	0.03	0.08	0.14	0.00	0.01	0.11					
iShares MSCI Emerging Markets Index	EEM	0.01	0.05	0.06	0.15	0.02	0.00	0.10	0.88				
iShares MSCI EAFE Index	EFA	-0.01	0.13	-0.25	0.36	0.44	-0.00	0.44	0.02	0.05			
Vanguard Small Cap ETF	VB	-0.00	0.06	-0.28	0.30	0.45	0.01	0.48	-0.01	0.04	0.84		
Vanguard Large Cap ETF	VV	0.01	0.04	-0.03	0.16	0.10	0.01	0.22	0.10	0.12	0.27	0.29	
Vanguard Mid-Cap ETF	VO	-0.01	0.04	-0.28	0.32	0.44	0.01	0.48	0.00	0.04	0.85	0.97	0.32

Cell Color	Description	Diversification
-0.65	Asset pair with negative correlation	Excellent
-0.15	Asset pair with slight negative correlation	Good
0.2	Asset pair with mild positive correlation	Moderate
0.8	Asset pair with strong positive correlation	Poor

ii) Inflation Protection

This is the 'Classic' gold play. As inflation risks appear, gold stands as an 'independent' currency which cannot be printed at will by any government. This makes it attractive during times when other currencies are weakening against durable goods (food, oil etc.). Given the trillions of dollars crated by the Fed (US), the ECB (Europe), and the BOJ (Japan), inflation, and possibly hyperinflation is a real risk. While gold started to signal this worry by rising to just under \$2000 a few years ago, there appears to have been a concerted and successful campaign of price manipulation and suppression by various central banks, and the BIS. The aim has been to remove the warning that gold has been sounding about the weakness of the Dollar. ⁽⁵⁾

iii) Reducing Systemic Risk

As was realized during the crash in 2008, the myriads of financial establishments (banks, brokers, hedge funds etc.) are interconnected in so many complicated ways that when a serious risk appeared – no-one knew who to trust and the whole system ground to a halt. Some companies/banks disappeared almost overnight. Since then, there have been attempts to increase stability, but every week we hear of 'flash-crashes' in one market or another. Sometimes in a particular stock, index, currency or commodity – which has a knock-on effect to related instruments. If you leave all your investments in the financial services industry, there is a clear and present danger of 'Systemic' risk – i.e. a risk that you may lose some/all of your portfolio as parts of the financial system itself begin to break down.

This is where owning physical metals in a depository, or private safe really comes to the fore. *Precious Metal bars & coins which are owned exclusively by you are entirely outside the financial system !* Whether you hold these personally, or they are stored in a private depository depends on your preference. The point is they physically exist, and are available to you and no-one else. The day-to-day market value obviously fluctuates, but gold has never been worth zero - which is more than can be said for the stock of bankrupt companies or debased currencies.

What Should you do ?

If you are familiar with traditional investments (mutual funds etc.) you will find investing in precious metals child's play ! (At The Atlantic Gold & Silver Centre, we actually have some customers under 16)

- First :** Decide what % of your portfolio you want in Precious Metals (Asset Managers for high net worth individuals recommend 5-10%)
- Second :** Decide whether you want gold, silver or a mixture ⁽⁶⁾
- Third:** Perform some due diligence to find a trustworthy supplier.

After this, you will find the actual transaction very simple. There is little or no paperwork required, and the whole process can be completed in a matter of minutes.

We have a wide range of clients, with varying financial means. Some come in and buy over \$100,000, others come in and invest \$1000 per month, and some come in & just buy a single silver coin worth \$25 each week. It is such a simple investment to make, that it appeals to all ages, and all income levels. It is a quick and easy way of putting money aside, in a format which helps you resist spending it – but which is always on-hand should you need it in a crisis.

If you're new to Precious Metals, then call us, or drop in for a chat. If you're already a convert, then we hope this has been a timely reminder of why this asset class is crucial for your long term financial well-being.

References / Credits

1. http://en.wikipedia.org/wiki/John_Exter
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Author David Ford is the founder, owner and President of The Atlantic Gold & Silver Centre. He is experienced in commodities & future trading, banking and insurance. He has been actively investing in gold and silver bullion since 2000.