NATIONAL POST
FINANCIAL POST

**MAY 19, 2009**

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# Gold the only asset that did its job

Bullion held fast when all others were plunging

Stock markets have seen some decent rallies in 2009 but many investors remain on the sidelines, convinced that the gains are short-term. They expect a correction and, with government spending on the rise, a primary cause for their worry is the possibility of inflation.

As usual, economists have every conceivable opinion accompanied by caveats like, "Of course, if such-and-such happens….". I am not an economist, but I think that we can and should ask ourselves logical questions, draw conclusions, and act accordingly.

The U.S. Federal Reserve Board is pumping liquidity into the markets, effectively diluting the value of existing dollars. While it seems a distant threat, such a move triggered inflation in the 1970s.

To control inflation, the Fed may need to increase interest rates. However, that could be difficult to do when they require lower rates to manage the mortgage-backed securities they've been purchasing.

Traditionally, gold has been viewed as a solid hedge against inflation. It has a very low correlation with other asset classes and, as a core holding, acts as a good buffer against volatility.

In 2008 gold took some criticism from those who felt that it underperformed expectations. Experts called for US$2,000 gold, but it only broke US$1,000 before returning to current levels. Since then, investors have been somewhat indifferent to it.

However, the reality is that gold was the only asset class that actually did its job. It maintained a low correlation to the markets and, as stock market indexes plummeted, it outperformed the broad markets and closed up about 4% on the year. Despite that, gold has maintained an underdog standing but, in my opinion, undeservedly so.

Investors should take a second look at gold bullion. As proven in 2008, bullion offers protection during uncertain economic times. Confidence in paper money and the U.S. dollar as a global reserve currency has dwindled, debt has risen to exceptionally high levels, and investment demand for gold has increased. In these conditions, gold should continue to outperform.

You can buy gold bars or coins from banks and independent dealers, or it can be acquired directly from the Royal Canadian Mint. It is usually priced at a markup, but the percentage can vary.

Those wishing to avoid the hassle of direct ownership might consider an investment product. Claymore Investments has filed a preliminary prospectus for a new gold bullion trust that will offer direct access to bullion with its U.S. dollar currency exposure hedged back to the Canadian dollar, reducing currency risk for Canadian investors.

Another good option is the Gold Bullion Fund recently launched in March by Sprott Asset Management. The fund, which trades like a mutual fund, has a $5,000 initial minimum investment with $500 subsequent minimums. It carries a 0.8% annual management fee.

It's a low-cost way to gain exposure to the capital appreciation potential of gold while maintaining a high level of liquidity.

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Investors should seek solid, tangible assets that can hedge against inflation, financial collapse, and currency devaluation. To quote Eric Sprott, “In the sea of financial assets and currencies that are being decimated the world over, the one true safe haven continues to be gold.”

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