Opinion **Adventurous Investor**

Gold: a hedge against future policy misfires

A new exchange traded commodity holds several advantages

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David Stevenson YESTERDAY

Gold has recovered some of its lustre as the go-to asset for turbulent times in the past few weeks. The immediate catalyst for rising prices is obvious to all but a cave dweller: the dreaded coronavirus.

There is a more interesting story lurking in the background, but one which, as something of a gold bear, I have struggled to accept. The first part of it is familiar to anyone who has ever stared at those amazing charts which show where global wealth is hoarded.

Property in all its shapes and guises towers over bonds and then equities. Gold at around $7tn is an afterthought in asset allocation terms.

This powers the narrative of gold bulls such as Incrementum, an asset manager which paints a picture of gold being an underowned asset at a time of unorthodox central bank intervention. Gold bulls also point out that central banks, especially

Russia's, have been quietly hoovering up supplies even as traditional physical holders such as the Indian middle and lower classes liquidate their hoards.

So yes, gold is underowned but on its own that doesn't mean very much. It could remain underowned for many more moons to come.

The next bit of the narrative is more technical. Look at any chart for the gold spot price and you'll see that for much of the recent period — since 2013 at least — the precious metal has traded in a range between $1,150 to $1,350. Last summer it surpassed $1,400 and is now heading towards $1,700. Crucially, gold is now trading firmly above its 20- and 200-day moving average.

But this breakout has no parallel in terms of price volatility. The main gold volatility index, ticker GVZ, has for long periods from 2017 through to the summer of 2019 traded in the 10 to 13 range but even with its latest breakout, price variability remains historically low. This is crucial. A "safe haven" only feels safe if the price of said asset isn't shooting around like crazy every few days or hours (unlike crypto and digital currencies).

The last leg of the story is that gold feels more and more like a hedge against that central bank unorthodoxy I mentioned earlier.

Many years ago I wrote about one of the few gold-only funds managed by hedge fund manager Ben Davies who is still influential in those circles. He was also co-founder of gold app Glint.

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He nicely summed up the case for gold last week, saying: "Asset classes, specifically US indices, are experiencing what the infamous Austrian economist, Ludwig von Mises termed the 'crack-up boom'. This is a manifestation of rising inflationary pressures as a function of excess periods of freely available cheap credit. Gold is underpinned by the same excess and rising negative real rates and at less than 2 per cent of global financial assets, holdings or the value of gold are set to rise significantly over the next few years."

In layman's terms, gold might be a great bet if you think that all that central bank loosening will at some point end in ignominy. That said, I'd be extraordinarily cautious about betting against further central banker ingenuity. Helicopter money, for instance, could make an appearance in the next recession.

It's against this benign, arguably positive, backdrop for gold that we've seen a new product launch in the market here in the UK. The Royal Mint, in collaboration with specialist white label issuer HanETF, has launched a new exchange traded commodity (with the ticker RMAU).

Gold ETCs that own actual allocations of physical gold are not new and there is plenty of competition in this space. Some of the big ETF issuers boast either much bigger products in terms of assets under management — such as Wisdom Tree and its long established Gold Bullion Securities structure — or cheaper structures, especially Invesco and iShares with their 19 basis point charge.

This new product may be slightly more expensive, but it has a number of advantages. The first is the entity behind the product: the UK government, which has owned the Royal Mint for many hundreds of years.

Interestingly, this isn't the first mint-backed gold product. In the US market the Perth Mint also sells a physical gold tracker product. For me that governmental backing is a killer advantage for ordinary private investors.

Another is the location in Wales, well away from big cities where most existing vaults are located. There's one other plus: you can take physical delivery of bars and coins, with the latter being particularly unusual. This can be done in some circumstances with Gold Bullion Securities but not with the other peers in this competitive sector.

I'd also note that this product features gold that is only sourced responsibly based on new rules set out by the industry in 2012. Plus, pricing is based on a much smaller equivalent amount of gold. Each share entitles the holder to 1/100th of a fine troy ounce.

So, though you're paying marginally more than the competitors for holding the shiny stuff, my hunch is that these more intangible benefits are quite literally worth their weight in gold — and even more if central bankers really do face a policy crisis in the coming years.

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