

7<sup>th</sup> October 2022

## Gold's allure: a diversifier and a store of value

- Historically gold is a reliable store of value
- Gold has low correlation with both equities and bonds
- Investors can get liquid access via exchange-traded products

#### The role of gold within a portfolio

Historically, gold has been the ultimate store of value through periods of market stress – a go-to solution for insulating and protecting. The precious metal has the potential to protect against the corrosive effects of inflation on overall value. It also provides portfolio insurance and delivers risk-based diversification. Unlike some other Alternative assets, gold is highly liquid (in terms of average daily trading volume), making it readily investable.

When looked at relative to a declining fiat currency, Sterling investors with (unhedged) gold exposure in their portfolios have benefited from a preservation of value. Gold is also a source of "true diversification" owing to the metal's uncorrelated relationship with both equities and bonds.

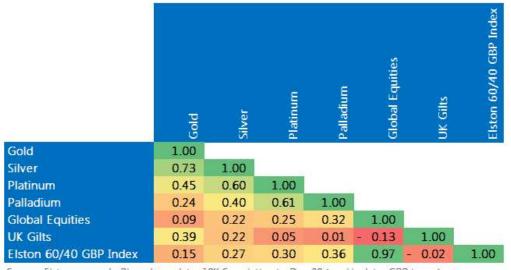


Fig.1. Gold and precious metals correlation matrix

Source: Elston research, Bloomberg data, 10Y Correlation to Dec-20 (weekly data, GBP terms)

The chart above illustrates the low correlation between gold and both global equities and a traditional 60/40 equities/bonds index.



Some asset allocators despise gold as there is no income yield and no intrinsic growth potential. But then there are gold afficionados who believe that gold is the be-all and end-all of investing. A measured approach would be to recognise its historical properties as a store of value through inflationary times and to harness its diversification potential owing to its uncorrelated behaviour.

#### How can investors get exposure?

If you want to be able to hold your asset in the palm of your hand, you can go to a bullion dealer and buy a gold coin (like a gold sovereign). Sovereigns are free of capital gains tax as they still count as legal tender. The problem is a) you can only buy them in increments of approximately £300, b) the premium/discount to its gold value is typically quite wide and c) you can easily lose them! For more liquid and convenient access, there are a number of options in the market that give investors exposure to gold in different ways.

- 1. **Physical Gold:** for targeted exposure to the gold spot price, investors can buy exchange-traded commodity funds (ETCs) that directly own physical gold bullion.
- 2. **Gold hedged into sterling:** If you like physical gold and also tactically believe that Sterling could recover from its lows, you could look at a Sterling-hedged ETC instead. This would be simpler than running a separate currency overlay. In our view, part of gold's appeal is as a diversifier away from currency, not towards it.
- 3. **Gold miners:** rather than direct exposure to gold, investors can also look to own a group of gold miners and producers via an ETF, capturing a similar performance profile, but introducing financial and operating leverage. This can amplify short-run returns on the upside or downside.

#### Summary

Gold has an important role to play as an uncorrelated diversifier, as a form of portfolio insurance shock absorber and as a hedge against inflation. For investors wanting to access the yellow metal as part of their portfolio, there are a broad range of instruments that will allow you to do so in a liquid, cost-effective manner.

Henry Cobbe, CFA

Head of Research

Elston Consulting

For all our Research & Insights, visit:

https://www.elstonsolutions.co.uk/insights





## Find out more

For more insights and information on research, portfolios and indices, visit:

www.elstonsolutions.co.uk or NH ETF<Go>

## www.elstonsolutions.co.uk

## ABOUT ELSTON

We research, design and build investment solutions with and for asset owners, managers and advisers.

Our Research & CPD focuses on multi-asset strategies, index funds and ETFs.

# NOTICES

With reference to the European Union Directive 2014/65/EU on markets in financial instruments ("MiFID II"): this Report does not provide a recommendation for an action, provides information freely available for public consumption and does not therefore constitute "Research" as defined by MiFID II. This is because this report contains purely factual information on one or several financial instruments or issuers and does not explicitly or implicitly recommend or suggest an investment strategy. It does not therefore constitute an investment recommendation as defined within the meaning of Article 3(1)(35) of EU Markets Abuse Regulation ("MAR"), in conjunction with Article 3(1)(34) of MAR. For further information, please refer to ESMA guidance ESMA70-145-111 Version 12.

With reference to the European Union's Market Abuse Regulation (Regulation (EU) 596/2014): we warrant that the information in this report is presented objectively, and the following commercial interests are hereby disclosed: Elston Consulting Limited creates research portfolios and administers indices that may or may not be referenced in this report. If referenced, this is clearly designated and is to raise awareness and provide purely factual information as regards these portfolios and/or indices.

An "Index" is a Regulated Benchmark. An "Index Portfolio" is not a regulated benchmark but a research portfolio of indextracking investments with a periodic rebalancing scheme.

All company, product and service names and trademarks used in this article are for identification purposes only and are the property of their respective owners, and their usage does not imply endorsement.

This document is not an advertisement or financial promotion. It is provided for informational purposes only and is not intended to be an offer or solicitation, or the basis for any contract to purchase or sell any security or other instrument, or for Elston Consulting Limited to enter into or arrange any type of transaction as a consequence of any information contained herein.

This document is issued by Elston Consulting Limited registered in England & Wales, registration number 07125478, registered office: 1 King William Street, London EC4N 7AF.

 $\ensuremath{\mathbb{O}}$  Elston Consulting Limited. All rights reserved  $% \ensuremath{\mathbb{O}}$  No unauthorised reproduction.