

MY ASSET ALLOCATION: IAN WILLIAMS

COMMODITY SUPER-CYCLE HAS ONLY JUST BEGUN



IAN WILLIAMS

Chairman, Treasury Portfolio Managers

The current asset allocation for our private clients probably differs from the average private client manager in that we do not slavishly stick to benchmarks or weightings, but look to achieve positive total returns in every asset class that we buy.

If we do not like a sector, however mainstream, we simply will not invest in it. For example, we have a much heavier exposure to gold shares than would be considered the norm.

The reasons for this are that we were among the original 'grand commodity super-cycle' exponents at the start of the great commodity bull market that began around the turn of the century.

As far as gold is concerned, we believe the cycle that is of most interest to investors is the 40-year cycle – 20 years up and 20 years down. Gold last peaked at \$850 an ounce in January 1980 and bottomed almost 20 years later in September 1999. If this analysis holds good, the next major peak in gold will not occur until 2019.

To back this argument up, we would also pay attention to the 'real', ie, inflation-adjusted, price of gold which would need to hit \$2,500 an ounce to be the same in real terms as the peak in 1980. In addition to this, the Dow/Gold ratio going back 100 years would also tend to suggest that we are no more than half way up the ladder rather than at the top.

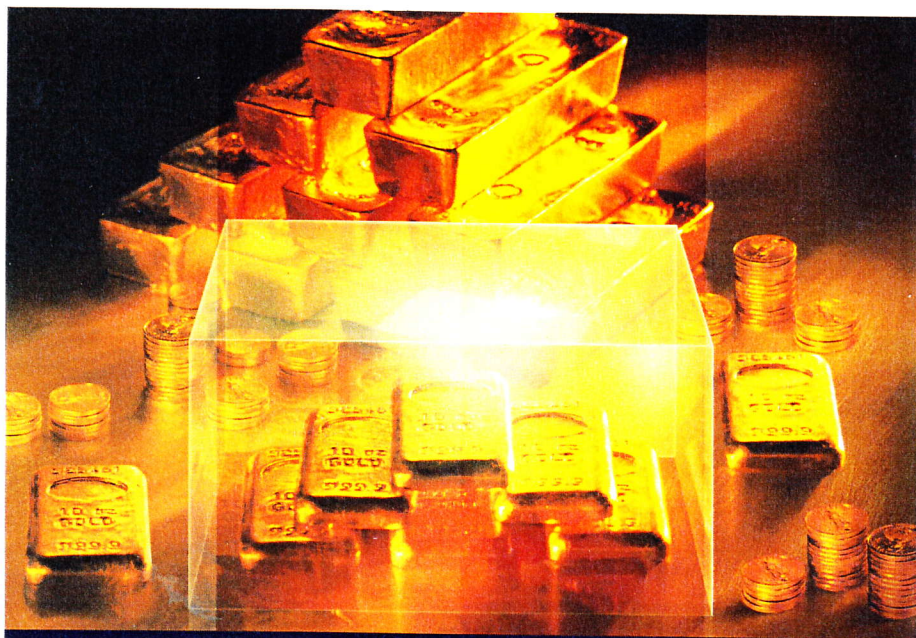
With regard to the fundamental reasons for buying gold and gold assets, we believe that the primary driving force is the decline of the US dollar as the world's sole reserve currency.

The new economic powers, ie, the Asian and Arab central banks and sovereign wealth funds, are close to saturation point in their holdings of US Treasury bonds and need an alternative that has countercyclical properties to the dollar and dollar bonds. These funds are growing by several hundred million dollars per week as a result of their unsterilised foreign exchange intervention, which feeds straight through to an increase in their foreign exchange reserves. At present, gold accounts for only a tiny percentage of these reserves and India's recent purchase of 200 tonnes of gold from the IMF sets a trend that China, Singapore and others are certain to follow.

The gilt market is an interesting place at the moment as sentiment is almost universally negative due to the size of the budget deficit and the probable end to quantitative easing. With both major political parties now committed to substantial deficit reductions and the UK economy still displaying signs of relative weakness,

any attempt to tighten fiscal policy significantly risks sending the UK economy straight back into recession. We therefore believe monetary policy will remain looser for much longer to compensate for any tightening of fiscal policy.

The outlook for the equity market is a bit more problematic. If, as a result of the inevitable fiscal tightening, the UK economy slides back into recession it would be quite likely the FTSE 100 would give up some of its recent gains. Even if a return to recession could be avoided, a prolonged period of sub-trend growth looks the best that the UK economy could manage in the current circumstances. As a result of this more cautious outlook we have recently switched a significant proportion of the mining shares held in our equity fund back into utilities, which offer greater defensive qualities in the event of a market setback.



MORE ON ...

Ian Williams

Ian Williams is chairman and chief executive of Charteris Treasury Portfolio Managers. He has 30 years' experience in equity and fixed income markets, covering sales, research, market making and proprietary trading. His career started as a stockbroker. Post-Big Bang he worked for firms such as Chase Manhattan bank, Guinness Mahon and Dresdner Kleinwort Benson, where he was head of bond options.