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Gold funds up over 100 per cent: time to sell, or buy more?

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Investors who boosted exposure to gold a year ago, at a time when global markets were in a state of turmoil following **China's version of Black Monday**, will have made some handsome profits.

Some specialist gold funds have been on a hot streak of form and have doubled investors' money over the past year, with **WAY Charteris Gold & Precious Metals Elite** leading the pack, posting gains of 171 per cent.

The rest in triple digit territory are **MFM Junior Gold** (169 per cent), **Investec Global Gold** (130 per cent), **CF Ruffer Gold** (130 per cent), **Smith & Williamson Global Gold & Resources** (124 per cent) and **BlackRock Gold & General** (117 per cent).

At the time of writing (31 August) the gold price stood at \$1,307, up from \$1,108 a year ago.

TIME TO SELL, OR BUY MORE?

Similarly, gold exchange traded funds such as **ETFS Physical Gold ETF** are up around 15 per cent over the year, so the majority of the gains from these funds has come from the gold miners' market performance rather than just down to movements in the gold price itself.

Stock market volatility, which has been commonplace over the past year, has been one of the main reasons behind **gold making a comeback**, with private investors attracted to the yellow metal's safe-haven attributes.

Other factors, however, have also been positive drivers, including a weaker US dollar.

For investors who missed out on the rally, is it now too late to join the party?

According to Nick Peters, who runs multi-asset funds for Fidelity, there is still money to be made. Peters said despite the rally he remains a buyer, arguing that gold is a useful diversifier in the current environment when many equity markets look expensive.

Although we have seen a significant rally in gold, I think investors should still consider an allocation to the precious metal. Gold can function as a safe haven during times of market volatility and provide strong countervailing returns to equities.

'While momentum-driven rallies can sustain themselves for some time, equities are now vulnerable to a change in the market narrative.

'It's not implausible that we see a repeat of the volatility that occurred in early 2016 or indeed around this time last year. As a store of value, gold can also offer protection if we see a pick-up in inflation.'

POTENTIAL DRIVERS

Adrian Ash, head of research at BullionVault and another gold bug, makes the point that the upcoming US election, which he says has the potential to be the 'most controversial in living memory', represents a big concern for investors, and this in turn should fuel further demand for gold in the coming months.

Another potential driver, according to Laith Khalaf, a senior analyst at Hargreaves Lansdown, is the 'ongoing clatter of the printing presses in central banks across the UK, Japan and Europe'.

Khalaf notes quantitative easing 'helps give gold a leg up, as it is a hedge against currency devaluation'.

But for those who are tempted to buy into gold's hot streak, it is worth bearing in mind that as a rule of thumb advisers recommend that investors limit their exposure to specialist gold funds, restricting it to a small percentage of a diversified portfolio.

Those who timed their entry well, for example buying a year ago and doubling their money, should consider rebalancing and taking some profits. Not doing so risks leaving your portfolio overly exposed to the precious metal.

As a simple example, a 10 per cent weighting to gold a year ago (let's say £10,000 of a £100,000 pot), could now represent 18 per cent of your portfolio through doubling in value (£20,000 of £110,000, assuming gains and losses in your other holdings have resulted in no net gain).

This is probably too much to have in a single specialised fund.

But it is also worth remembering that gold is difficult to value, due to the fact that it does not pay an income.

The precious metal also tends to give investors a rocky ride. In 2011, for instance, the gold price stood over \$1,800. Today it is around 30 per cent lower.

In turn this has hurt longer-term gold bugs, regardless of whether they have exposure to gold via a gold specialist fund or an exchange traded product, which offers a low-cost way to directly invest in the metal without having to deal with storage or security.