

**It makes sense to hold some gold as an insurance policy and the Way Charteris fund is a good place to start**

# Heavy metal



**Mark Dampier's Fund Focus**

According to most market professionals, the leading gold fund is BlackRock gold and general. I own it myself and it has the longest track record of all. But there are various others to consider and a recent launch from Ian Williams at Charteris is one that is definitely worth a good look.

Mr Williams is better known for running the City Financial Strategic gilt fund, a top performer in its sector but somewhat at the other end of the spectrum to a gold

fund. However, his present belief in gold as an investment has been shaped primarily by his views of economics in the fixed-interest arena.

The gold price has been hitting new highs lately but rather than buying the physical metal itself, Mr Williams invests predominantly in blue chip gold mining companies.

This is where he believes the real opportunity lies, based on the reasonable principle that gold mining shares outperform physical

gold due to the leverage they have on the gold price.

The costs of operating a goldmine are largely fixed, so the more the gold price rises, the more profitable a mine should become. This is somewhat of a generalisation as the cost of production sometimes rises with the price of other commodities.

However, most managers agree that mining shares presently offer greater value than the metal itself for this reason.

When looking at an individual firm, Mr Williams stresses that the quality and profitability of its proven reserves is more important than good management.

He also feels location is important. For instance, he will not buy into firms operating in South Africa as he believes the easy gold has already been extracted. He is also uneasy about the region's political situation and problems caused by frequent power cuts.

He has faced some criticism for his lack of a track record in running a gold fund. While this is true, I can testify that Mr Williams' personal Isa account (which he has been investing in this area for a while) has done extremely well.

His enthusiasm to launch a gold fund this year stems from a belief that gold remains significantly undervalued and that supply is struggling to keep up with demand, especially now we are seeing new investment demand from emerging markets.

Mr Williams points out that more than 90 per cent of China's foreign exchange reserves are in dollars but they have only 1 per cent in gold. He sees this is unbalanced and predicts they will be significant buyers of gold over the next few years. It is a similar picture with the reserves of many other Asian central banks and, if he is right, the gold price has barely started moving.

More important from an economic perspective is the process of quantitative easing both here and in the US. This has expanded the monetary base (the amount of money in circulation) enormously. Deflation might be the battle in the short term but Mr Williams believes at some stage this

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additional money will unblock itself, find its way into the broader system and cause high levels of inflation.

He says we are only a third of the way through a traditional gold cycle and there is more action to come. Indeed, he argues that if gold had kept up with inflation over the years it would already be around \$2,300 an ounce, rather than the \$1,260 it is.

It makes sense to have some gold as an insurance policy in your portfolio. I fear Western politicians may let the inflation genie out of the bottle at some stage. If this does occur, it seems hard to make a case for holding any of the traditionally safe currencies. Whatever anyone says about gold, it remains the final store of value that cannot be debased by politicians. That alone means it is worth having some exposure.

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