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Is it time to invest in gold?

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Gold has returned to favour in 2016, and as a result specialist funds that back the yellow metal are also shining.

Since the start of the year the gold price has risen from $1,061 an ounce to $1,292 at the end of last week, which represents an 18 per cent rise.

Gold funds have fared even better, thanks to their exposure to gold mining shares, many of whom have seen their prices rise more than the gold price, which are effectively a geared play on the gold price.

MFM Junior Gold, which specialises in buying small mining businesses, has been the top performer, with its share price rising 120 per cent. Taking the silver medal is **WAY Charteris Gold & Precious Metals Elite**, up 96 per cent, followed by **Investec Global Gold**, which has gained 71 per cent.

WHY IS GOLD SOARING?

Why is gold soaring? Well, as ever, there are a number of factors at play, but the stock market volatility that took place at the start of the year is one of the reasons.

Some investors exited the stock market and increased their exposure to gold, a safe haven asset whose value tends to be uncorrelated with other assets. Central banks have also been buying up gold in large quantities.

According to Jason Hollands, of adviser Tilney Bestinvest, increased demand for gold from both institutional and retail investors is 'symptomatic of growing concerns over global growth and the fact that some investors have lost faith in the ability of central banks to navigate market hazards'.

Hollands adds that a weaker US dollar has also helped gold. The value of the dollar typically has an inverse relationship with the gold price.

When the dollar falls, gold becomes less expensive for international investors to buy, because gold is a dollar-denominated commodity. Investors also start looking for alternative stores of value - including gold - when the dollar loses value.

Is the rally sustainable? It really is anyone's guess, but whether gold does go higher or lower from here depends on the next move made by America's Federal Reserve.

NEGATIVES FOR GOLD

Garry White, chief investment commentator at Charles Stanley, says: 'Although the markets now expect interest rates to remain "lower for longer", it is seemingly inevitable that the US will increase rates over the next few years - maybe substantially. **This will be positive for the dollar and negative for gold.**'

As a rule of thumb, advisers recommend that investors limit their exposure to specialist gold funds, restricting it to form a small part of a diversified portfolio.

Hollands notes: 'Gold funds are notoriously volatile and not for the faint-hearted.'

As well as gold funds, there are other ways to gain exposure to the precious metal.

One is to use physical gold-backed exchange traded products, which offer a low-cost way to directly invest directly in the metal without having to deal with storage or security.

If you want to hold gold even more directly, options range from trading physical gold bars on an online exchange such as Bullion Vault to buying from the Royal Mint, where you can also buy gold coins. Charges for buying and storing vary.

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