

FE Trustnet News and Research

Why gold funds could be set for further gains



By Jenna Voigt 28 Aug 2013

In previous three-month periods where gold has lost 24 per cent or more, it has rebounded by an average of 20.7 per cent in the next three months.

Gold investors with a high conviction in the asset class were rewarded for their patience this week, following a resurgence in the price of the precious metal.

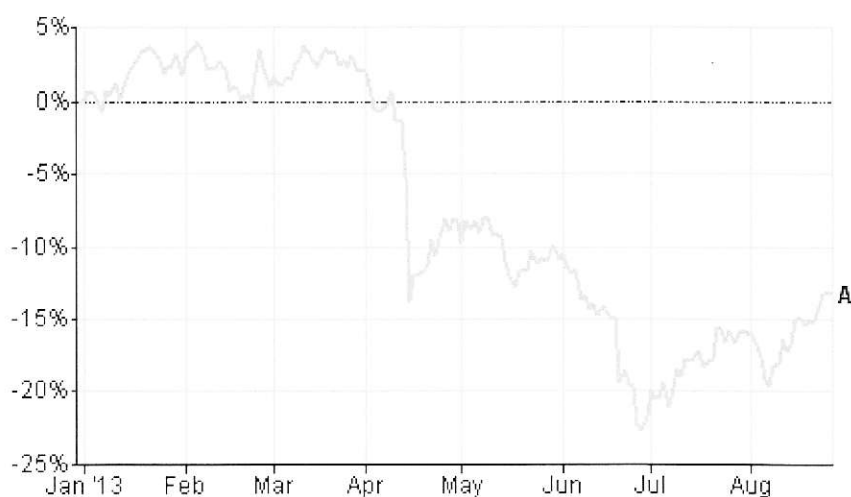
hedge.

The commodity first fell sharply in April, when investors began to sell out of it to take advantage of the bull run in equities. The relatively benign level of inflation so far this year also lessened the attractiveness of gold as a

It continued to slide through the market correction in May and June, losing more than 22 per cent of its value since the start of the year.

However, gold has rallied since it bottomed out in early July, regaining its June losses to climb back up to \$1,423 per troy ounce at the time of writing.

Year-to-date performance of gold



■ A - S&P GSCI Gold Spot in GB [-13.04%]

31/12/2012 - 27/08/2013 Data from FE 2013

Source: [FE Analytics](#)

With the possibility of western air strikes in Syria, it seems the appetite for the "safe haven" asset has returned, although analysts say this is not the only reason why it has rebounded.

"It's like summer 2013 never happened for gold and silver," said Adrian Ash, head of research at BullionVault.

"The dramatic downturn in US data, plus the fresh wrangling over the US debt ceiling, has seen both metals recover all of June's slump."

"Bullion prices say Fed [US Federal Reserve] tapering is off the table for September and that's before the Syrian crisis puts a real premium on crude oil."

The metals rose in spite of a spike in US government bond yields and a stronger US dollar, both of which could be expected to depress its attractiveness as a safe haven, as a report from ETF Securities pointed out.

"While the spike in US bond yields is pressuring many financial assets, precious metals took the latest release of the Fed's minutes in their stride, ignoring its statement that it is 'broadly comfortable' with moving ahead with reductions in bond-buying in the near future," the report stated.

"The fact that both gold and silver prices ended the week higher indicates that the start of Fed tapering may have already been largely priced into precious metals."

While Ash says it is impossible to say whether this is the start of another bull run for gold, history suggests this could well be the case.

"As yet, it's unclear whether this jump marks a long-term upward trend, but it's interesting to note that this bounce is in no way unprecedented," he explained.

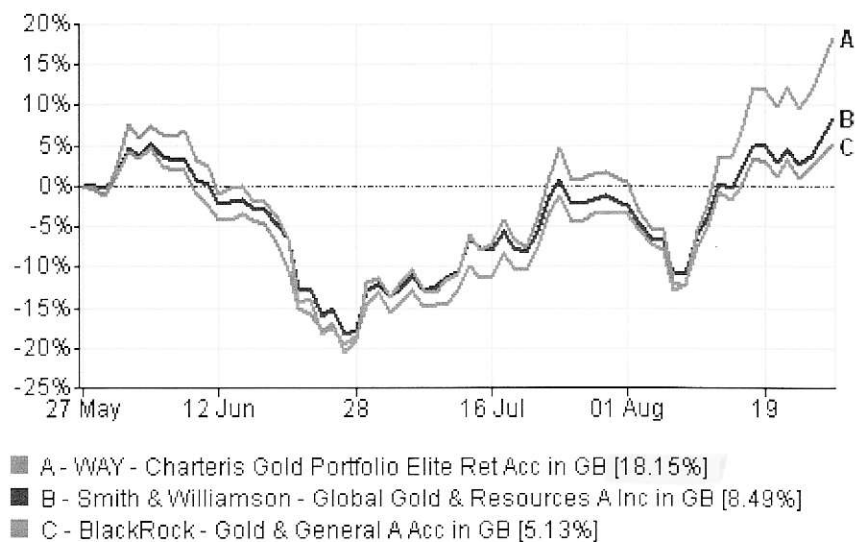
"Since April 1968, there have been 15 rolling three-month periods where gold in sterling has lost 24 per cent or more, and after each of these three-month periods, gold prices rose again over the next three months, resulting in an average 20.7 per cent increase for UK investors."

Specialist gold funds have benefited in recent weeks. After years of languishing at the bottom of the performance tables, several gold equity portfolios have been leading the way out of the correction.

[BlackRock Gold & General](#), [Smith & Williamson Global Gold & Resources](#) and WAY Charteris Gold have all topped the tables over the last several months.

The WAY Charteris fund, managed by [Ian Williams](#), has picked up an impressive 18.15 per cent over the last three months, while the Smith & Williamson and BlackRock portfolios gained 8.49 per cent and 5.13 per cent respectively.

Performance of funds over 3 months



24/05/2013 - 27/08/2013 Data from FE 2013

Source: [FE Analytics](#)

A number of financial experts have indicated that the time is ripe for commodities and mining funds, which have been sorely out of favour over the last five years.

Given the especially strong run from equities, investors may want to consider taking profits from their outperforming holdings and reinvesting them in cheap areas of the market, particularly if they think gold mining shares are finally going to have their day.

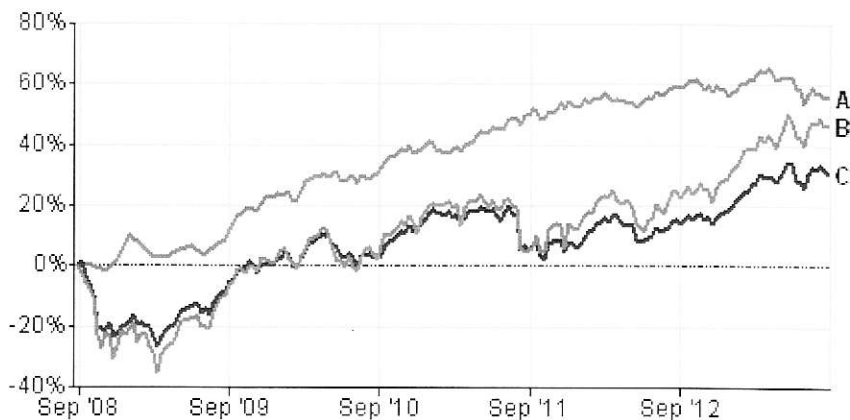
[Sebastian Lyon](#) has been one of the most outspoken advocates for gold in recent months, going so far as to say he was still bullish on the metal's outlook in the doldrums of July.

The manager holds more than 10 per cent in gold and gold-related assets in his £2.5bn [Trojan](#) fund.

Although the fund's cautious stance has caused it to lag the IMA Flexible Investment sector and FTSE All Share over the last one and three years, it has protected better than both over recent weeks, as the unusually close correlation of assets during the correction has unwound.

The manager has proved himself over the last five years, returning 56.46 per cent compared with just 30.43 per cent from the sector. The FTSE All Share made 46.21 per cent.

Performance of fund vs sector and index over 5yrs



- A - Troy Asset Management Ltd - Trojan O Inc TR in GB [56.46%]
- B - FTSE All Share TR in GB [46.21%]
- C - IMA Flexible Investment TR in GB [30.43%]

27/08/2008 - 27/08/2013 Data from FE 2013

Source: [FE Analytics](#)

Lyon's style has also won out in the previous two down markets. Trojan protected better than nearly all of its peers in the financial collapse of 2008 and in the down markets of 2011, and is in fact one of the very few funds in the entire IMA universe that has not lost money in a single calendar year over the last decade.

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