SILICON PRIVATE WEALTH

WEALTH MANAGEMENT SOLUTIONS

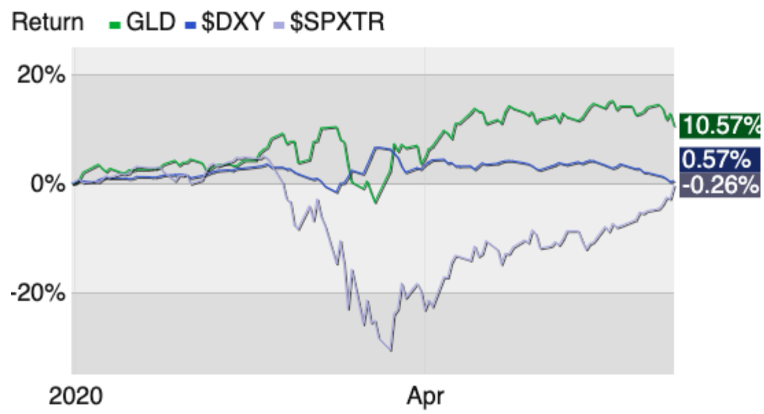
SPW’s “We Are Thinking” Series

June 2020

We Are Thinking about … **Gold**

Overview

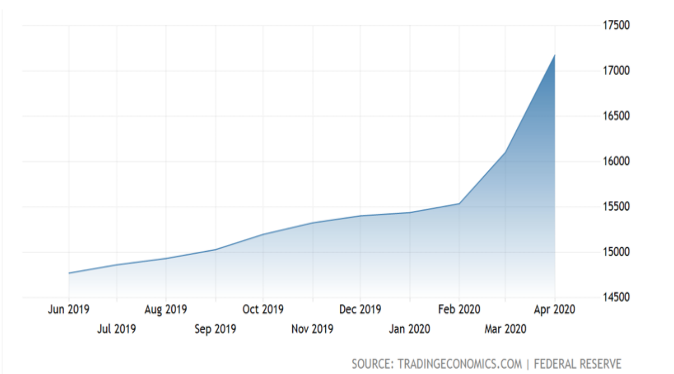
Gold has been one of the best performing asset class through the first half of 2020! Up over 14% through June 10th, punching to a 7-year high along the way!



Gold spot versus the relative strength of the $ and the S&P 500

Source: Kwanti 6_12_2020

The “flight to safety”, was hardly surprising as we all looked to fathom if COVID was to be the economic Armageddon of our time. As soon as the Fed backstopped market liquidity, the metal started a climb with some investors wanting to have at least a toe hold on solid ground.



Fed throws a safety line by increasing money supply

Recent economic news sweeps in mega numbers: the rise in US unemployment beyond 41 million, a loss in global GDP of $10tn. But it is the Central Bank policy stimulus that is eye catching in a Gold calculus. World economies are throwing $18tn at a $10tn problem along with 122 global rate cuts. It’s all fueling a startling bounce back in global equity market cap from recent lows by $15tn with $5tn cash still sitting on the money market bench. This global Tsunami of government stimulus money is a motive force behind support for gold, despite the immediate COVID deflationary trends from high unemployment and low oil prices.

Yet, the market seems willing to toggle the “risk off-on”, switch given a whiff of positive news and a dismissive glance at the actuals: flooding currency markets, near zero yields from treasuries, the increased economic strain on heavily indebted nations like Brazil and Mexico, commentary on a weakening dollar, COVID 2.0 and a host of other global uncertainties. Conventional advice on Gold slots it as a low allocation, tail risk investment. Its traditional value is a low correlation to equities and an inflation hedge. But who needed that over the last decade? You might even hear an advisor say, “when it comes to investing …. all gold is ‘fool’s gold’.” Until today.

Gold Cache

As we set forth, it may be time to consider investing in gold. We think that viewing gold only as an equities hedge maybe the wrong view. Rather, the risk you might want to look at is in a portion of your fixed income portfolio. It is exposure to repricing credit risks that might need to be shored up. This dynamic is still unfolding. The Fed is currently working to open liquidity to a bifurcated muni market. Significant spreads in pricing have developed between investment grade AAA bonds, 8% YTD vs high yield CCC bonds, -18% (as of 5/28). So, if it’s early to declare victory, …… does gold have a place in a diversified portfolio?

Source: Wall Street Research, Zacks, Bank of America Merrill Lynch, Goldman Sachs, MarketWatch
Graphs: Trading Economics and Kwanti

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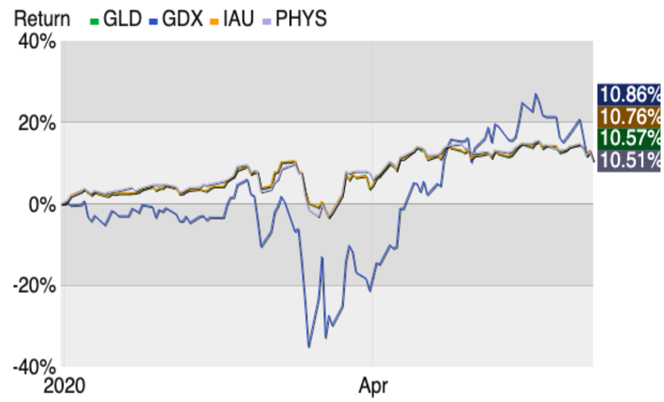
Gold Cache

Owning physical gold like coins or bullion is an option, but that can be expensive to insure, and a hassle to store securely and quickly liquidate. Plus, traders in bullion have historically had a large spread between their 'bid' and 'ask' prices. On another note, long term gain taxation rules on physical gold, or securities with exposure to physical gold, defined by the IRS as "collectibles", can also be a consideration. There is also a murky precedent from Great Depression times when FDR's government took action to confiscate privately held gold, offering compensation at below market rates. An emergency circumstance designed to help the FED deal with deflation at a time when the dollar money supply was partially linked to the metal. Given all that how do retail investors typically access gold?



YTD Performance of Gold Related ETFs: GLD, GDX, IAU, PHYS Source: Kwanti 6_12_2020

The more regular approach is to invest in ETFs. Gold, as a commodity, is much easier to get access to and store than oil, as an example. So, futures contracts are not generally used to get exposure for the average investor. Precious metal ETFs are generally divided into three categories: physical-backed ETFs structured as grantor trusts, such as the popular **GLD** and **IAU**. Second are securities "tied to" precious metals, such as mining stocks, mutual funds, and mining ETFs like **GDX** and securities supported through financial institutions like Exchange Traded Notes and a variety of sophisticated engineered structured products. Third are closed-end funds, which are also trusts, **PHYS**, and can trade at a premium or discount to NAV.

Talk to Us

Given gold's long-standing reputation as a "flight to quality" asset, we think a discussion about its potential place in your portfolio might be of interest to our readers. Given your current portfolio, risk tolerance, and expectations for future global events, we welcome a conversation about this sought-after asset, and how it might help your overall portfolio benefit for what is likely to be more market disruptions in the coming year.

You can contact us at (408) 645 6790. We look forward to hearing from you.

Source: Wall Street Research, Zacks, Bank of America Merrill Lynch, Goldman Sachs, MarketWatch
Graphs: Trading Economics and Kwanti