“THERE’S GOLD IN THEM THAR HILLS”

The phrase **‘There’s gold in them thar hills**’ comes from Mark Twain’s 1892 novel *The American Claimant*. He is believed to have adapted the phrase from a time when a well-known gold assayer stood up in a town square in Georgia in 1849 and, to keep locals from heading to California for the Gold Rush proclaimed to a crowd of gold miners, “Why go to California? In that ridge lies more gold than man ever dreamt of. There’s millions in it.”

Fast forward 170 years, and it may be time to hear such cries again, as the price of gold recently rocketed to an all-time high of just over US$2,000 per ounce. In Australian Dollar (AUD) terms, this equates to around AUD$2,800 per ounce, and is up 30% on the same time last year. Over the last 20 years, gold has shown relatively consistent growth, but the last 6 months has been especially strong as a result of the global response to the economic impact of COVID-19.

The Paradigm Alternative Asset Portfolio has held an investment in gold for many years, and today, approximately 38% of the Alternative Asset Portfolio is held in gold. The gold exposure is facilitated via an Exchange Traded Fund (ETF) which tracks the physical gold price and provides a return equivalent to the movement in the Australian Dollar gold price. The ETF is backed by physical gold bullion held by JP Morgan in London.

Gold has always been “powerful stuff”. The earliest history of human interaction with gold is long lost to us, but its association with the gods, with immortality, and with wealth itself are common to many cultures throughout the world. The “value” of gold was accepted all over the world. Today, as in ancient times, the intrinsic appeal of gold itself has that universal appeal.

However, as an investment, gold can come in and out of favour depending on the prevailing economic and financial conditions. There are several reasons for the recent significant rise in the price of gold. The central reason for gold’s lustre is related to the policies adopted by regulators.

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Firstly, in response to the economic effects of COVID-19, the US Federal Reserves (the Fed) slashed US interest rates to close to zero. Simultaneously, the Fed adopted a policy to buy hundreds of billions of dollars of bonds which pushed the yield or income on those bonds down heavily. Gold does not pay in income, but when the yields on other assets are so low the opportunity cost of owning gold is removed, and gold's lack of yield becomes a strength.

Gold is still considered a safe haven, and while equity markets have recovered from their March lows, it is far more difficult to quantify risk, and investors do believe that gold will hold its value if equity markets do suffer volatility or suffer falls.

A further reason for gold's performance is the weakness of the US dollar. Buyers of gold outside of the US are prepared to pay a higher price for gold as the falling USD still makes it cheaper in their domestic currency terms.

An overlooked explanation is the demise of physical cash as a liquid and easily transportable asset. But suffice to say that as cash becomes obsolete, assets that are prized for their "scarcity value" (rather than an ability to deliver cash-flows over time) should do well.

Interestingly, times of high inflation can be a positive factor for gold. This has not been a factor over the last few years as inflation has been low. However, the low interest rates policies of central banks, combined with massive Government expenditure, and depreciating currencies in the case of some countries, could put forward pressure on inflation. Should this occur, gold may be propelled considerably higher.

It took 3 years after the start of the previous financial crisis (2008) for gold to peak, and the gold price continued to rise until there was undeniably clear evidence that the US economy would slowly recover.

Gold will most likely come under negative pressure if global growth surprises on the upside, forcing interest rates higher or even creating an expectation that interest rates will rise faster than previously expected. This appears unlikely at this stage.

Today, the global financial system is only just starting to come to terms with the recent events resulting from the onslaught of COVID-19, and further significant intervention from policy makers is likely to prevent global economies from slipping into deep recession.

As a result, there are many reasons to maintain a material investment in gold, and we remain comfortable with the current exposure within the Paradigm Alternative Asset portfolio.

As always, if you have any questions, please contact your personal Paradigm advisor.

JAMES MIRAMS

Director

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