THE INVESTMENT CASE FOR GOLD

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SA BULLION
GOLD DEALERS & VAULTERS

OUR VANTAGE POINT

We see gold as money; as a form of currency. We view gold similarly to the way we view cash in the bank. In fact, we see gold as a competitor to cash in the bank.

We have not always seen gold this way. For the last 20 years of the previous century we observed the systematic de-monetization of gold. Gold was on its way out as a form of currency reserve. There were many reasons for this, including massive productivity gains, falling inflation, declining global risk premiums, money supply growth, asset price inflation and the export of dis-inflation from China.

Change, however, is a certainty. Late in the 20th century we anticipated the commodity boom and we expected excessive money-supply growth followed by currency depreciation. And we came to expect structural economic weakness.

THE CASE FOR CASH

Generally speaking, we do not like cash. Cash is the asset class that assures, at best, stodgy performance when taxes and inflation are factored in. And then of course there is always the risk of bank failure and even currency failure.

Most of the time however, we see the need for some cash - perhaps 5 or 10 percent of one's total holdings.

We see this need for cash for two reasons:

The Liquidity Reason
The Liquidity Reason recognises the possibility where catastrophic events (e.g. the COVID-19 pandemic) make it difficult or impossible to earn income or raise cash. In such times it might be essential to have cash to fund one's living expenses for some time or to finance one's businesses or leveraged assets.

The Diversification Reason
At the heart of the Diversification Reason is the possibility where the markets and one's investments are struck by catastrophic events (e.g. Global Financial Crisis). In such an instance, at the time when one's holdings are hurt along with everything else, cash is on hand to take advantage of the massive opportunities that have suddenly presented themselves due to re-pricing of assets. This methodology creates a self-righting system.

CURRENCY SELECTION

A cash decision requires a fiat currency decision. There is no cash investment without a fiat currency decision, whether deliberate or by default.

We do not advocate cash exposure to one currency only, no matter what one's take on currencies. Cash ought to be regarded as the safe haven asset and therefore should not involve excessive risk-taking in terms of currencies.

One should hold local currency cash where one is resident to fund one's living expenses and where one has funding obligations in a time of catastrophe.

And then one should hold US Dollars. In times of crisis there is always a desperation to get out of local currencies and into the Dollar due to its de facto global reserve currency status. Crisis action creates a synthetic short on the Dollar. This causes the Dollar to rapidly appreciate, and, conversely, the local currency to rapidly depreciate. Aside from the appreciation benefits, the Dollar has the advantage of universal acceptance.

THE CASE FOR GOLD

Gold is a unique form of currency. It offers great liquidity and diversification benefits and in addition it offers a third, and extremely compelling reason.

> **The Hard Currency Reason**
> In 1971 the world entered this present extraordinary era of unbacked currencies. In this era fiat currencies (all currencies except gold) have been rapidly and inexorably losing value. This depreciation of currencies is due to excessive money supply growth, and is most commonly experienced as inflation. Gold is immune to inflation and has been so for thousands of years. Gold is the ultimate hard currency and is the only currency that is proven to retain its value in the long term.

DECLINE OF THE DOLLAR

The US government and the Federal Reserve cannot protect the dollar. Safeguarding the currency would imply significantly raising interest rates and tax rates. Were such a course to be followed the US could anticipate a Japanese-style deflation. America's unspoken mantra must be "inflate or die".

US money supply is increasing much faster than GDP. Reflation, or continued rapid increasing of the money supply, is the best of all bad choices. Reflation will alleviate federal debt problems, provide the banking system with liquidity and profit growth, and will present consumers with a means to settling their debts in the long run. Interest rates will stay low, money supply growth will continue unabated, and the dollar will slide. Since President Nixon ended gold-backing of the Dollar in August 1971, up to end-May 2020, the Dollar lost 84% of its value. Since the US Federal Reserve was established in 1913, up to end-May 2020, the Dollar lost 99.6% of its value.

The need to be competitive puts all other currencies in a similar position.

DECLINE OF THE SOUTH AFRICAN RAND

South Africa and the Rand have the problems that are generally common to developing countries and commodity currencies, but additionally, South Africa is beset with problems of its own making.

South Africa's headline problems are: structurally weak economy, poor government policies and regulation, poor politics and politicians, poor healthcare and education, poor public finances, fraught social fabric and broken state utilities.

From time of de-linking to gold in August 1971 to end-May 2020 the South African Rand lost 96% of its value against the US Dollar. There are no reasons to expect any reversal of the trend but there are many reasons to expect acceleration as circumstances deteriorate.

CONCLUSION

In times of financial market distress it is crucial to have essential liquidity (cash). In this era of unbacked currencies it is critical to hold currency that maintains its value (gold). At all times it is imperative to diversify.

> **"Remember that the future will not necessarily be like the past. Therefore we should diversify."**

Dr Harry Markowitz, father of Modern Portfolio Theory and Nobel Economics Prize winner.