The Role of Gold as an Asset Class for the Private Wealth Industry
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Gold has been valued and respected for its rich history and the role it has played in cultures over millennia, and this is likely to continue. Gold has maintained its value throughout history, and people see it as one way to pass on and preserve wealth from one generation to the next, but its position as an investment class is less clear-cut. Speakers at SBMA's seminar expounded on what drives gold supply, gold demand, and ultimately markets and prices. They also discussed how to allocate gold investments, arguing that gold is an essential part of any investor's portfolio.

Universal value

"Gold is a mainstream asset and delivers returns in all market conditions", SBMA CEO Albert Cheng said. While typically viewed as a safe haven asset, Mr Cheng pointed out that its turns have been comparable to stocks since the end of the gold standard. Gold can make portfolios more efficient, he added, citing its low correlations, downside protection and positive performance as reasons it should be a part of every portfolio.

This sentiment was shared by UBS Commodity Research WM CIO executive director Wayne Gordon, who compared holding gold in one's portfolio to buying insurance. For him, gold is something that can protect portfolios against high volatility and political risks, though he cautioned there is a strategic point to the level of holding.

SBMA executive director Hawk Naimiki presented developments in the gold market in the past 50 years that have strengthened the position of gold, the most important of which is the shift in the market from the western world to the east. He said that gold "shined again" with the Central Bank Gold Agreement (CGMA) in 1999 and that it continues to have universal value and is still regarded as one of the world's reserve currencies.

About 50% of the gold circulated around the world is used for jewellery, while 20% is used for private investment, 18% in the public sector (e.g. central bank holdings), and 12% for processing goods, he said. To get a better understanding of the fundamental role gold plays in society and its direct economic impact, one needs to look more closely at gold's value chain, which starts at the mine (crushing, milling, smelting) and its stages on the way to the retailer/end-user, which includes LBMA, refining (assaying, refining), logistics/storage, bullion bank, wholesaler, and manufacturer, Mr Naimiki said.

Principles of gold investment

The principles of investing in gold are similar to when investing in other assets and commodities. Mr Naimiki advised potential investors to look at underlying factors that affect gold prices and to consider the stories driving the market. This could be any number of factors including supply and demand, geopolitics, country or credit risk, financial system risk, the strength of the US dollar, interest rates, and the cost of mining.

He pointed out that there are many types of gold investment products, and that one should select the product that reflects your risk appetite. Additionally, where you want to receive, and how you want to receive makes the difference, he said.

Gold has no yield compared to commodities, but there is always a case for gold in one's portfolio. According to Mr Cheng:

- Gold is a mainstream asset that is as liquid as other major financial securities
- Gold provides the right kind of diversification, offsetting losses in periods of strong stock market pullbacks
- Gold improves portfolio risk-adjusted returns

While equity market volatility should remain low in the near-term, investors' should bear in mind gold would rise sharply on any pickup in equity market volatility, Mr Gordon said. As such, investors facing an inverted yield curve can best deal with the cycle by being more proactive about insuring their portfolios. According to him, the best strategy is to stay invested, but the holistic part is to keep gold as insurance. While bonds have historically been the perfect hedge against equity risk, they currently face challenges.

The global economy is currently close to the middle of the cycle, and bonds, given their valuations, are unlikely this time to provide the same level of protection they have in the past when equity markets inevitably turn down, Mr Gordon cautioned. Ultimately, as with any investment, the wisdom of the decision depends on when you buy and when you sell, he said.

Developments in the market

Mr Gordon said the reason everyone is talking about gold now is because the global economy is in the middle of a cycle. However, the difference between the current cycle and ones that have come before is that recovery has been long, but slow, and there are signs of a looming economic slowdown, according to Mr Gordon. He cited tensions in the labour market, with the US unemployment rate near a 15-year low, and said he expects more inflation going forward, and for central banks to tighten monetary policy.

"Bull markets don't die of old age", he said. "They die of things like oil shocks, exogenous shocks, and central bank tightening".

Mr Cheng cited the strong link between the performance of gold and emerging markets, especially Asia, from where most global gold demand originates. Additionally, geographical diversification has helped dampen price volatility, he said. For example, mine supply, which was previously dominated by South Africa, is now more diverse and is split regionally.

Wealth and successor planning

Wealth is also being distributed differently from a geographic perspective. Bird & Bird ATMD LLP partner Ow Kim Kit highlighted that in 2016, the growth of UHNWIs and HNWIs in the Asia-Pacific region, at 10.8% and 9.9% respectively, far outpaced other regions, which posted growth rates 0.1% for UHNWIs and 1.7% for HNWIs in the rest of the world. She said that given the sheer market size of Asia and potential from a wealth management angle, it is likely that family offices will soon see a steady growth in numbers in Singapore.

Corporatising succession planning is very important for preserving family wealth and transferring it to the next generation, Ms Ow said, advising investors to look into the effective use of family offices, which are entities that can provide services to manage large private fortunes. She said important considerations when setting up a single family office are the appropriate structure of the family office, and the best location to implement such a structure.

Deloitte Private director of Family Enterprise Consulting Catherine Chow said that in this regard, Singapore is ideal because of its pro-business environment and competitive tax regime. She advised investors to look into establishing a trust to structure private wealth and explained the benefits of using trusts for distributing money in a tax-efficient way. A trust provides flexibility with both income and capital distributions, and there is a host of tax incentives available, Ms Chow said.