Kōrero Haumitanga

IWIinvestor
Pou Tiaki i Ngā Rawa
New Zealand's wealth advisers

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Clear, simple, jargon-free investment information from IWIinvestor

Gold – a luxury good or good investment?

By Sarah Delany

This precious metal is very unique. We love to buy it and melt it down into bars, coins or jewellery and sell it to someone else (for a profit of course!).

Our love affair with gold goes back thousands of years. Like no other commodity, gold has allured us since the beginning of recorded time. Our fascination for gold and its many uses help to preserve its value.

It is a metal which has special properties. It can't rust, tarnish, corrode or decay and it can be shaped and sculpted. It conducts electricity, its durable and portable. It is highly liquid (can be sold easily for cash). When you own it, it has no credit or default risk – it doesn't rely on someone paying back your interest and capital. Gold is scarce, and this can make it subject to greater demand and higher prices. Gold was universally accepted as a form of payment in many cultures

All of these factors combined, means there are multiple demands for this remarkable substance.

Why invest in Gold?

- Gold is a raw material which we call in investment terms, a commodity. Other commodities that can be invested in include copper, sugar, rice or coffee. We invest in commodities because their price tends to move up at different times to other types of investments such as shares. Using these contrasting price movements **adds to the diversification** of your portfolio, and therefore, **reduces your risk**.

- Most of the gold ever mined still exists in accessible form such as bullion and mass- produced jewellery. This makes gold special – some value is in keeping the gold rather than using it (compared with say sugar, rice or coffee), and wait until it **increases in value.** In addition, production of new gold mines has been declining since 2000, and as a general rule, reduction in supply increases prices.

- When you invest in physical gold bars and coins, you are **free from default risk**. This is a risk generally associated with investments that are dependent on the fulfilment of a transaction by a third party (like the paying of interest or payback of capital on a fixed interest bond for example).

- **Gold's price tends to increase when the cost of living (inflation) increases.** If you have assets in your portfolio which move with the rate of inflation, it means your investments are keeping up with costs of goods and services. When we invest in these types of inflation-proof investments, we call it hedging against inflation.

For more information, please don't hesitate to get in touch with your adviser or email us at info@iwiinvestor.co.nz.

Current uses

Jewellery – 80% of current gold used is in the form of jewellery.

Money – it's been a medium of exchange for 6000 years.

Electronics – it's an efficient conductor that can carry tiny currents and remain corrosion free.

Dentistry – Gold has been used in dental work for thousands of years as it is biocompatible and unlikely to cause a reaction in the mouth.

Olympics Gold Medals - every Gold Olympic medal must contain at least 6 grams of gold.

NASA - it can be used for some satellite components and spacesuits.

Gold reflects infrared light whilst still letting in visible light. This makes it perfect for astronauts' visors, protecting their eyes from unfiltered sunlight

Risks

- The first risk is when you want to sell the gold - if the price is lower than what you paid for it you will make a loss. This is known as **market risk**. This becomes less likely the longer you hold it.
- It doesn't give you an income or interest payments – the 'return' comes from the gain in capital.
- A major gold discovery could decrease the price with a flow of new supply.
- When economic conditions improve, investors may move to other assets, and the price may fall.

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