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Gold versus Platinum

In a year where precious metal prices have fallen at the fastest pace in decades, and equity markets have risen strongly, many investors in bullion are re-assessing their investment strategy and deciding whether or not it makes sense to divest their bullion holdings and allocate their investment capital into the stock market.

Whilst this is a sentiment affecting bullion investors across the spectrum, it is particularly acute amongst those who were 'late to the party' with gold, and who invested near the peak in 2011.

Those investors have seen a significant decline with the gold price falling from US \$1900 in September of 2011 to US \$1253 by the end of November 2013.

Whilst ABC Bullion can't provide investment advice, and every individual investor has their own decisions to make (either by themselves or with a trusted and licenced financial advisor), we hope the information below will give you some encouragement that you are on the right track when it comes to incorporating bullion in your portfolio.

To help make the case, we're going to compare the performance of gold to the performance of Platinum, not the physical precious metal, but the Australian funds management group, headed up by the legendary Kerr Neilson, whose flagship Platinum international equities fund is a market leader with over \$9bn in funds under management.

Gold vs. Platinum (a 5 year review)

Over the past 5 years to the 30th November 2013, the Platinum international fund has returned 10.6% per annum, outperforming gold (in USD terms), which has risen by 9.0% per annum over the same time frame.

These numbers have been taken from the Platinum website for the fund managers returns, and for gold, the return has been calculated using the London PM Fix prices of US \$814.50 on the 28th November 2008 and US \$1253.00 for the 29th November 2013

<https://www.platinum.com.au/Performance/>

Note that for the Platinum fund, the return is net of fees (excluding buy/sell spreads and investment performance fees payable), calculated pre-tax and assumes all dividends are reinvested.

In an absolute sense, you would have made more money investing in Platinum than in Gold over the past 5 years, but that would of course required you to put all your eggs in one basket.

When we break down the performance on a yearly basis between the two investments, and look at the capital value movements in both, the statistics are interesting, and show that a 'diversified' investor would have done well incorporating both bullion and the leading international equity fund manager into their portfolio.

Investment	1 year to Nov 09	1 year to Nov 10	1 year to Nov 11	1 year to Nov 12	1 year to Nov 13
Platinum	-4.30%	0.37%	-14.27%	5.63%	45.32%
Gold (USD)	44.35%	17.67%	26.20%	-1.15%	-27.40%

** Note this table is calculated using London PM Fixes for gold on or as close to end November of each calendar year, whilst for Platinum, its calculated based on the entry price on the 28/11/08, 30/11/09, 30/11/10, 30/11/11, 30/11/12 and 29/11/13 and does not include distributions paid in each year.*

As you can see, with the exception of the past 12 months, the performance of gold has been exceptionally strong, whilst to that point, notwithstanding the fact the above table doesn't include distributions, the performance of one of Australia's leading international equity managers had lagged bullion considerably.

Indeed, whilst a 5 year return of 10.6% per annum is a terrific result for anyone whose been with Platinum across that time, it's been heavily reliant on the past 12 months, with a total return including distributions of 48.90% in the 1 year to end November 2013

You can see that clearly on the below chart (downloaded from their website), which shows the 5 year return of Platinum from 12/08/08 to 12/08/13 versus that of cash.

It shows that by the middle of November 2012, 4 years into our 5 year investment timeline, \$20,000 invested in the market leading Platinum fund had only grown to \$21,621, at the time barely in line with cash in the bank.

Over the same time period, had an investor put \$20,000 into gold, it would have risen in value to over \$42,000. Today, that investment is still worth approximately \$30,000, even with the significant correction in bullion prices we've seen in 2013.



Therefore, whilst one might claim equities are a 'better investment' looking at the 5-year numbers in isolation, the reality is that it's only in the last year that equity funds have rallied significantly, whilst gold prices have fallen.

Of course, you'd also have to have known to pick Platinum as your equity manager of choice, rather than any of the hundreds of other managers who have struggled to beat their respective indexes over this time period.

For anyone who had been keen to diversify their assets, and ensure they have a good balance of investments in their portfolio, the reality of the last 5 years shows that a mix of these two investments would have offered similar overall returns, with less volatility and less concentration risk.

Considering the uncertain economic environment we face as the world enters 2014, the risks of a disorderly unwind of Quantitative Easing in the US (or of no unwind if economic data isn't strong enough) and the unresolved sovereign debt issues plaguing the developed world, there's no reason to think the next few years will be any different.

For whilst a year where one asset class rises significantly and another falls by a similar magnitude will naturally lead many investors to question their portfolios, and tempt many to 'chase returns' in rising markets, never has it been more important to look at the fundamentals underpinning the economy before choosing where to allocate capital.

Do you really want to be 'all in' when it comes to equities?

If you do, you'll be ignoring the warnings of another one of Australia's leading equity managers, who have outperformed the ASX 300 by 36% since their inception in July 2010, who, in their latest report to investors stated:

- Current strength in the stock market is occurring without any real improvements in the economy. Valuations are starting to look very full. Weak fundamentals accompanied by expensive and rising markets is almost always a dangerous combination for investors
- Some of the investors we respect globally have started returning some capital back to their investors citing shrinking opportunity sets for new investments
- IPO activity has reached party levels and is driving significant investment and capital market activity. In almost all cases, pricing looks to be in favour of the sellers. Buyers beware.

And when it comes to gold, consider the following:

- Every major central bank is still printing money with no sign of stopping
- Interest rates are set to remain zero bound as far as the eye can see even long after quantitative easing ends (if it ever does)
- Every major developed nation is continually adding to their already unrepayable sovereign debt burdens
- Emerging powers like China are buying as much as gold as they can

With that in mind, do you really think it's a good idea not to be an investor in precious metals today?

Whilst individuals must make their own mind up as we enter 2014, at ABC Bullion we believe true diversification, including holding a significant quantity of physical bullion in your portfolio, will likely continue to reward you in the years ahead, much as it has for the majority of the past decade.

Regards



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