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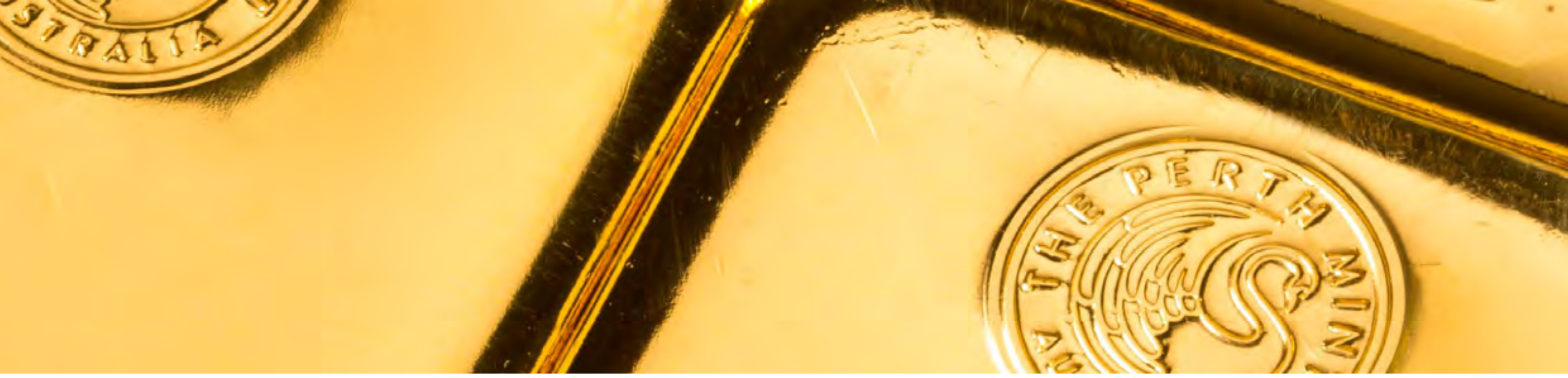
The self-managed super fund trustees guide to gold

2024 edition



The self-managed super fund trustees guide to gold

Gold has transfixed humanity for millennia.

Shiny, lustrous and alluring, it will not tarnish and is all but indestructible. Rare and relatively difficult to extract, it's always been seen as precious.

Because it's inherently valuable, gold was trusted as money, and is considered by many astute investors to be an effective store of wealth, especially in times of inflation.

There's no doubt gold is valuable and will continue to be so in the future.

But long gone are the days when gold was accessible only to the rich and privileged, or it was necessary to hold it in physical form as coins, bars or jewellery.

Contemporary investment vehicles have made this precious metal easier to access than ever before.

Today, retail investors and self-managed superannuation fund (SMSF) trustees can access the gold markets in a variety of ways.

Sure, some investors may still choose the traditional route.

However, the modern investor has several options. There are gold-backed exchange-traded funds that make buying and selling gold as simple as trading shares.

Alternatively, for those wanting a mix of physical gold and modern convenience, you can buy gold online and store it at the place of purchase. This way you have access to the physical metal and can request delivery (for a small fee) at any time.

The question is, is gold right for you as an investor?

To answer that, you need to understand gold's past performance and its current market drivers.

Gold has outperformed most markets for two decades[1]

For many investors, gold is best known as a hedge against rising inflation. The precious metal tends to rise in value as the cost of living increases, essentially holding its purchasing power over the long run.[2]

Over the past 50 years, gold prices have soared when markets have plunged, during times of uncertainty and periods of high inflation. So, gold offers portfolio diversification to savvy investors as gold has an inverse, or negative, correlation with stocks and other financial instruments.[3]

For example, the stagflation of the 1970s was horrible for stocks but extremely positive for gold. Gold struggled during the late 1990s as stock markets boomed and inflation subdued.[4]

Gold performance compared to other asset classes

Source: TradingView

More recently, gold has begun to outperform several other asset classes.

Given the global low interest rate environment gold has exceeded the performance of long-duration US Treasury bonds many times over.[5]

In fact, despite large gains in equity prices, gold has outperformed every major global index over the past 24 years.

Since the year 2000, gold has outperformed the Dow Jones Industrial Average twice over — the Dow Jones rose 240% in that time, compared to gold's 700% gain over the same period.

It even beats the technology-heavy Nasdaq, which comprises tech darlings such as Amazon, Apple and NVIDIA.[6]

Inflation remains sticky[7]

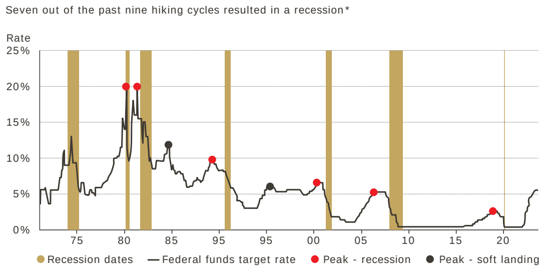
It's evident gold has been in a secular bull market since 2001, rewarding long-term holders of gold.

In 2020, pandemic-era government policies such as government spending and looser monetary policy provided several tailwinds which could support the precious metal for the years ahead.[8]

Years later, economies are still feeling the impacts of these policies, along with supply chain disruption. A direct consequence of these saw inflation entrench itself with the US economy, soaring to a peak of 9% in June 2022.[9 10]

To combat rampant inflation, the Fed increased rates by 525 basis points from March 2022 to July 2023, the fastest interest rate hiking period in four decades.[11 12 13]

World Gold Council says soft landings are rare[14]



Sources: Bloomberg, Federal Reserve, NBER, World Gold Council; Disclaimer
*Data from 29 January 1971 to 31 October 2023.

Yet even after these aggressive rate hikes, inflation in the US has only just slowed to 3.4%, making the last leg of inflation sticky.[15]

It was telling that in December 2023, Fed chair Jerome Powell said reaching the central bank's target inflation band of 2-3% is problematic, saying, *'While we believe that our policy rate is likely at or near its peak for this tightening cycle, the economy has surprised forecasters in many ways since the pandemic, and ongoing progress toward our 2 per cent inflation objective is not assured. We are prepared to tighten policy further if appropriate.'*[16]

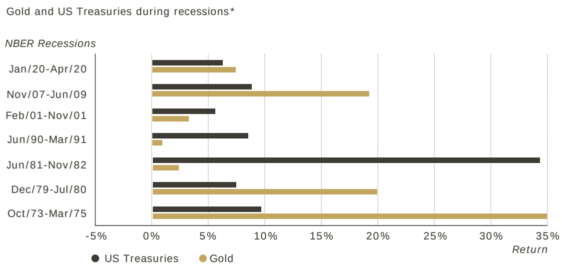
Granted, sticky inflation suggests the Federal Reserve will keep interest rates higher for longer, shoring up the US dollar, both of which could be somewhat of a headwind for gold.

But there are several other factors outside of interest rates which may support, or even drive, gold prices higher in the years to come.

Broadly speaking, markets are anticipating a 'soft landing' for the US economy.[17] The labour market remains tight, economic growth is robust, and corporations have healthy balance sheets ... as do consumers.[18]

Should a soft landing eventuate it'll benefit bonds and other risky assets as opposed to gold.

Historically gold has performed well during recessionary conditions[19]



Sources: Bloomberg, NBER, World Gold Council; Disclaimer
*As of 30 November 2023. Based on LBMA Gold Price PM and Bloomberg US Treasury index.

In saying that, the **World Gold Council** notes a soft landing has only occurred twice out of nine rate-tightening cycles over the past 50 years.[20]

This means the probability of a recession is higher than a soft landing. Should the former eventuate, it would be positive for gold.[21]

Central bank responses to recessions often mean rate cuts, which makes holding gold over more bonds appealing. Out of the past seven recessions, gold has performed well.[22]

Geopolitics boost demand for safe haven assets like gold

Geopolitical uncertainty continues into 2024 and risks derailing global economic recovery efforts.

The Ukraine-Russia war has led to an elevated gold price for the past two years. The decades-long conflict simmering between Israel and Palestine — which has now morphed into a war — has driven further support for the metal.[23]

Geopolitical tensions can have a significant impact on the yellow metal as it reinforces gold's role as a safe haven asset.

Conflict between countries often makes investors more risk-averse as they become concerned about the broader implications for financial markets causing a slowdown in their own economies.

In the past, wars have led to currency devaluation or depreciation, seeing investors turn to gold to protect the value of their local currency. While gold is priced in US dollars, it isn't really tied to any specific country so retains its long-term appeal and intrinsic value.[24]

War risks supply chain disruption which may fuel inflation.[25] As an example, recent attacks on shipping vessels in the Red Sea from the Houthis are affecting trade routes.[26]

Half of all Red Sea container ships — or around 18% of the total global shipping fleet — are now boycotting this route. The longer journeys increase delays in freight and will lead to higher freight costs which could prolong inflation for many consumers.[27]

Increasing geopolitical tensions create uncertainty and often reactive equity markets. Gold tends to outperform during periods of uncertainty because of its role as a safe haven asset.

Elections in 2024 may be disruptive for ‘risk-on’ assets

More than 60 countries are holding elections this year, where more than four billion people will vote.[28]

So much so that *Time* magazine said ‘2024 is not just an election year. It’s perhaps the election year.’ [29]

The United Kingdom, Taiwan, South Africa, India and Russia are all set to head to voting booths during 2024.[30]

However, none of these are more contentious than the US election to be held in November.

After being fixated on central bank policies the US election provides an additional distraction for investors. Looser government spending often favours gold during a US election year, as the incumbent president likes to make big spending promises to remain in office.

Furthermore, gold has historically performed better if a Democratic leader is elected and falls if a Republican leader takes office.[31] This performance may be largely attributed to Republican governments being financially conservative while Democratic governments come with more social policies which require public funding.[32]

Gold is volatile, but markets can be unpredictable

Despite gold's strong long-term returns and reputation as a safe haven, the fact that gold's prices can be volatile at times worries some investors.

Especially for those new to the yellow metal, gold's volatility can be a deterrent rather than a reason to invest.

However, gold's volatility is why it is an excellent asset to have in a balanced portfolio of investments.

The volatility is more driven by sharp moves to the upside rather than sharp falls. And most often, these sharp run-ups in the gold price occur when equity markets are selling off.[33]

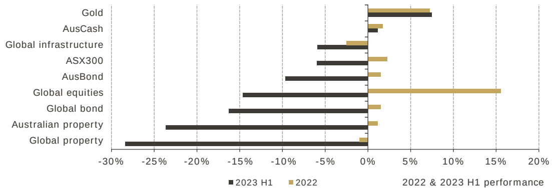
This is why combining an allocation to gold alongside an equities portfolio helps substantially lower the volatility for investors than the two assets on a standalone basis.

Individual or SMSF: How do I invest in gold?[34]

There is a good reason why gold has developed its reputation as a safe haven asset: it's tended to be the best-performing individual asset whenever equity markets experience sharp falls.

Plus because of gold's inverse correlation with other asset classes, it offers a type of diversification few other products can. That is, gold can be a form of currency exposure, it can be an inflation hedge, or it can be a 'risk-off' tool in unpredictable markets.

2022 and H1 2023 returns for major assets in Australian dollars



For example, when the Australian dollar declines in value against the US dollar, the gains are magnified in gold. In fact, over 2023 alone, gold in Australian dollars gained 14% compared to gold in US dollar terms where it rose only 10%. Holding gold has helped offset the weakness in the Australian dollar for investors.

Again, investors in gold have protected their wealth during Australia's worst period of inflation in 30 years.

In January 2023 Australia's inflation rate peaked at 7.8%[35] and still sits above 4%[36] today, yet data from the World Gold Council shows that gold priced in Australian dollars has an annualised return of 7.6%[37] over the past 20 years.

This means gold not only has outpaced Australia's persistent inflation today but has provided strong returns for two decades.[38 39]

Whether you're an individual investor or operating a self-managed super fund, it's important to remember you're making decisions not just on today's current investment climate but for what might happen in the future.

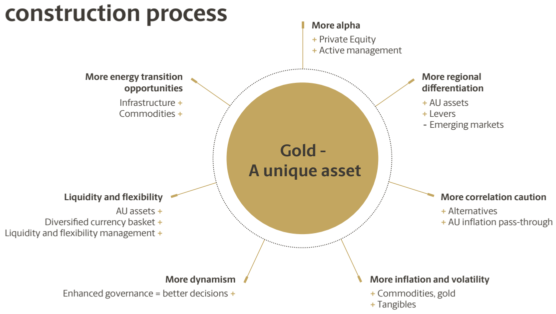
Therefore, you aren't investing for today, but rather the events you can't predict right now.

Gold can suit long-term investing objectives because its strongest performance is based on a multi-year investment strategy.

Constructing a portfolio for all the unknowns means you need to invest with an inverse correlation to most markets to ensure your portfolio is balanced, as well as being able to benefit from market turbulence.

According to the **World Gold Council** keeping a small allocation to gold — say 5-10%[40] of your total investable capital — will provide most investors with the ability to weather equity market downturns and capture gold's upside during periods of inflation or market uncertainty.

The Future Fund's evolved portfolio construction process



Source: https://www.futurefund.gov.au/-/media/66726D4351AC47BE93FB52C0651265DC.ashx#:~:text=The%20Future%20Fund's%202022%E2%80%9323,%24145%20billion%20since%20its%20inception

Gold: A unique asset

Long-term growth

Historically, holding physical gold has generated long-term positive results, both in absolute terms and relative to other assets.

Protection when it's needed most

Globally, gold is considered a safe haven asset, something markets turn to during periods of volatility. Gold's reputation as a 'risk-off' asset is well deserved as it is often the best-performing asset whenever equity markets experience large falls.

A simple hedge for the Australian dollar

During times of currency weakness, that is, when the Australian dollar is falling, gold can act as a hedge. Falling equity markets often cause the Australian dollar to decline in value against other currencies. This decline in the Australian dollar can benefit Australian investors in gold as the Australian dollar gold price *increases* in value quicker.

Simple to access

There is a broad range of options when it comes to investing in gold. Investors can buy physical gold and store it with a trusted provider or buy shares in a gold-backed exchange-listed investment vehicle.

Low-cost and highly liquid

More than US 130 billion worth of gold is traded every day, making it one of the most liquid asset classes on the planet.

Buy online, store in The Perth Mint's vaults or take delivery?

Buy, sell and store gold online 24 hours a day with **The Perth Mint depository online** (DOL) trading platform. This portal is designed so investors can react quickly to US and Australian dollar gold prices. With the minimum transaction size of just AUD 50, anyone can be a gold investor.

Alternatively, investors can create a savings plan starting with as little as AUD 50 per month and 50% off transaction fees.

The Perth Mint Depository program is an offline service where transactions are executed on your behalf by our experienced depository staff during Perth business hours. This service often appeals to medium to long-term investors. No transaction fees are payable if the value of the account is more than AUD 50,000. **Learn more here.**

The Perth Mint has been refining gold for 125 years and all precious metal held by depository customers is covered by a government guarantee provided under legislation by our owner, the Western Australian Government.

Western Australia is the only state or territory in Australia to have the top long term credit rating from both major international rating agencies S&P (AAA) and Moody's Investor Services (Aaa).

Have you considered PMGOLD?

Gold is incredibly easy to purchase, store and sell.

One of the most popular and cheapest ways to access gold is via a listed product such as Perth Mint Gold. This product trades on the Australian Securities Exchange (ASX) under the ticker code **PMGOLD**.

You can buy and sell PMGOLD directly through your online share trading platform or with your broker. For Australian investors you can buy gold for as little as AUD 500, which is the minimum trade size required by the ASX.

One of Australia's leading research houses, Lonsec, has reviewed PMGOLD. Lonsec produced an independent research report covering the product, awarding PMGOLD a Recommended Rating, one of the highest rankings it provides to any exchange traded product.

Finding the 'Goldilocks zone' for Australian investors

Of course, that's the case for gold, but how does this work for Australian investors?

Gold, like almost all commodities, is referred to in US dollars. This is because the US dollar is the global bench pricing mechanism for commodities.

Precious metals may be priced in US dollars, but if you're buying gold in Australia, it's the Australian dollar gold price that matters.

Australian investors aren't just exposed to the US gold price but must also factor in currency price movements from the Australian dollar/US dollar cross rate [AUD/USD].

The Australian dollar has been in decline compared to the US dollar since 2021, falling from a high of 80 US cents in late February 2021 to today's mid-60 US cents range.[41]

This 17% decline in the Australian value has been *beneficial* to Australian investors investing in gold. Anyone who bought gold in late February 2021 has seen it rise 35% in value, from AUD 2,289 per ounce to a little over AUD 3,100 per ounce.

This extraordinary gain shows the benefits of using gold as a currency hedge for your portfolio.

When the Australian dollar is weak, the Australian gold price magnifies the gains of the US dollar spot price. Gold enables investors to offset the effects of currency fluctuations on investment performance.

How the Australian dollar gold price works

	Australian dollar goes up	Australian dollar goes down
US dollar gold price goes up	Limits price gains in Australian dollar gold price	Large increase in Australian dollar gold price
US dollar gold price goes down	Declines in Australian dollar gold price	Limits fall in Australian dollar gold price

When it comes to investing in gold, ‘average’ matters most

Seeing the power of the Australian dollar gold price rising means it can be tempting to only consider gold, especially when the Australian dollar exchange rate is falling.

The problem is, trying to pick currency price movements favourable to you and timing the gold price can be like trying to catch a falling knife!

Instead, once you understand how the Australian dollar exchange rate moves impact investments compared to the gold spot price, rather than try to time the Australian dollar exchange rate moves by being trapped watching the market move tick by tick, look to do something called ‘dollar cost averaging.’

The adage ‘time in the market is more important than timing the market’ rings true when it comes to gold.

Often the best approach to investing in gold isn’t a ‘one and done’ purchase.

Rather, slowly increase exposure to gold over several purchases. This way, any returns are calculated on the overall average of the purchase price.

The Perth Mint depository online (DOL) trading platform is an ideal tool to assist investors to dollar average their investments over time via a savings plan.

Choosing your precious metals provider

When assessing which entity to invest in precious metals with, investors should consider the following factors:

- History and reputation
- Consider asking the following questions when looking to invest in precious metals:
  - When was the organisation founded?
  - Who/what is (are) the owner(s)?
  - What guarantees protect investors’ precious metals holdings?
  - Is the organisation a member of globally recognised precious metals industry bodies such as the London Bullion Market Association (LBMA)?
  - Does it refine and manufacture a range of gold bars to suit my investing needs?
  - Are the investment products backed by physical gold?

Publicly available audited statements

Two critical questions to consider are: whether your chosen precious metals organisation makes its financial information publicly available and is this information externally audited. Examples to look for include annual reports and physical gold bar lists where relevant.

Financial strength

Gaining access to a corporation’s financial information means investors can gain a better understanding of the balance sheet strength of the organisation. While gold is a highly liquid and deep financial market, this is of little comfort if the organisation lacks the financial strength to make a market when investors are looking to buy or sell.

Transparency and reporting

Transparency and reporting are crucial tools for investors. Does the organisation quote the gold price on its website? Is the fee structure clear and simple to understand? Will portfolio valuations and trade information be provided in a timely manner?

Are the precious metal holdings guaranteed?

Understand your counterparty risk when it comes to precious metals holdings. What is, if at all, the guarantee of precious metals holdings? The safety and assurance of any investment is paramount.

About The Perth Mint

More than AUD 6 billion in client metal safeguarded

The Perth Mint is Australia's largest and most highly accredited precious metal enterprise. Offering a comprehensive suite of investment options including the exchange-traded product **Perth Mint Gold [ASX:PMGOLD]**, storage solutions and physical bars and coins. The Perth Mint is trusted by clients across numerous countries to safeguard their wealth. With assets under management in the billions, The Perth Mint is the leading supplier of precious metals in Australia.

Unique guarantee and structure

The Gold Corporation Act 1987 states that the Government of Western Australia, sole owner of The Perth Mint, guarantees all its operations, undertakings and obligations. This provides clients with peace of mind and certainty from the knowledge that a highly rated sovereign entity is fully underwriting all its offerings and liabilities.

The Perth Mint's diverse operations are bound by strict prudential management guidelines and policies to ensure compliance with legislative and regulatory requirements, as well as Australian codes of practice.

Data sources

1 Source: TradingView chart page over). Chart was created on 4thFeb 2024, and compares the US spot price of gold to a basket of indices (DOW, S&P500, DAX, FTSE, NASDAQ US 10yr Treasuries, XJO) from year 2000 to 3/2/2024
2 https://www.investopedia.com/articles/investing/092514/better-inflation-hedge-gold-or-treasuries.asp#:~:text=Gold%20is%20often%20hailed%20as,provide%20built%2Din%20inflation%20protection.
3 https://www.investopedia.com/financial-edge/0311/what-drives-the-price-of-gold.aspx
4 https://www.investopedia.com/articles/basics/08/reasons-to-own-gold.asp
5 Please see performance chart to right
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7 https://www.afr.com/wealth/personal-finance/sticky-inflation-in-america-signals-risks-20240110-p5ewav
8 https://www.smh.com.au/business/companies/this-bull-moves-up-down-and-sideways-gold-increases-its-lustre-for-australian-miners-20230622-p5dim6.html
9 https://www.brookings.edu/articles/what-caused-the-u-s-pandemic-era-inflation/
10 https://tradingeconomics.com/united-states/inflation-cpi 5Yr chart shows inflation peaked in June 2022
11 https://tradingeconomics.com/united-states/inflation-cpi
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29 https://time.com/6550920/world-elections-2024/
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35 https://tradingeconomics.com/australia/inflation-cpi
36 https://tradingeconomics.com/australia/inflation-cpi
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40 https://www.betashares.com.au/insights/buffett-vs-dalio-investing-in-gold/
41 Source Tradingview: High price taken from 21st February 2021. AUDUSD has been trading between 64 US cents and 67 US cents since December 16 November 2023. Chart in comment box next to reference #

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