How to Trade Gold

Article

Gold prices continue to rise dramatically since 2008, as investors are concerned about the financial crisis in the western world. Investors have been buying the metal as a “safe haven” asset.

In 2011 it rose to new highs above $1,800 an ounce amid concerns that the US and EU peripherals might default on their government bonds. According to the World Gold Council, gold outperformed all major bond, equity and commodity indices across the globe this year.

Some investors are urging caution on gold while others speculate that the price will rise to $2.000 per ounce. TFIFX’s analysts think that gold is a solid hedging asset but it might be becoming another hyper-investment (bubble); following strong price rises in the past few years with limited corrections so far. Metals can play a vital role in a multi-asset portfolio and are often seen as a sound investment in the context of economically unstable markets, for both short and long-term traders.

1. Hedge Risk Asset Only

Gold is theoretically a safe haven asset that will retain at least some of its value if other asset classes are falling in value. So the likelihood of equities, bonds and other assets falling in tandem has to be assessed before piling into gold. Most investors buy gold as assurance, rather than because global economies will fail. Gold provides no income and the price is volatile, historically rising higher when equities are falling.

Investors should buy no more than 5% of a portfolio in gold, while more conservative investors should only have about 3%. Typically, higher-risk clients who have more equities in their portfolio tend to hold higher amounts of gold.

2. Prefer a Gold exchange-traded fund

Gold ETFs are a quick and easy way to gain exposure to gold: Shares can be bought and sold daily and the funds are backed by physical gold. Most gold traders tend to use ETFs for a short-time frame rather than a long term investment.

3. Holding actual physical gold

Specialised providers will buy physical gold and store it in vaults for investors giving them the safety of knowing the gold is held in their name. The problem with physical gold is that it is difficult to sell fast and maintenance costs are rather high. Nonetheless, in due time, it becomes cheaper to hold physical gold than ETFs, which have ongoing charges.

4. Buy the Gold mine

Mining companies share prices have fallen lately in the midst of equity market volatility, making them more appealing compared with the steady rise in the gold price.

This is an indirect way to gain exposure to gold. Nevertheless, shares in mining companies will be affected by any broad sell-off in equities which is what holding gold is supposed to protect you against.

5. Silver an Alternative Metal Investment

Silver is usually the cheapest alternative to gold and thus called the “poor man’s gold”. Silver, however, is much more volatile than gold. Due US dollar uncertainties, silver is being supported by a semi-safe haven status and its attractiveness may increase for as long as these troubles rage on she says. Silver is widely used as an industrial metal, so will be affected by any slowdown in production if economies falter.

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