BERRY
ASSET MANAGEMENT PLC
A MEMBER OF THE BORDIER & CIE GROUP

+44 (0)20 7667 6600

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Olympic Gold

Man has been obsessed with the yellow metal since time immemorial, and today seems no different. Whether it's the world's elite athletes seeking to wear it round their necks, or investors seeking solace in something they can just touch, its attractions seem to know no limit. King Croesus of Lydia (now Turkey) started it all – in 560BC he started to mint gold coins as legal tender, and we have never looked back.

Despite our apparent obsession, and maybe it's why we are obsessed, there still isn't much of it around: As of 2009, only about 165,000 tonnes had ever been mined. How much is that? Well, put another way, all the gold ever produced would fit into just two and half Olympic sized swimming pools. Remember that when watching the swimming. Sadly, the UK's share would be down at the shallow end: Gordon Brown sold more than half of the UK's entire reserves between 1999 and 2002, when the price was languishing. The nation's average sale price was just $275 an ounce. Its value would have grown five fold if he had kept it.

But how good an investment has it been, and where next for the precious metal?

In simple terms, gold has been a good, but volatile, investment over certain periods, and more recently it has been a stabilizing influence in many investors' portfolios. The very long term picture, however, over say almost a hundred years, is uninspiring to say the least. It is really only since the US dollar left the gold standard in 1971 that the price of bullion has substantially outpaced inflation. It is interesting to note that a dollar invested in large US stocks at the start of 1992 was worth $2.65 in real terms at the end of 2011. And so was a dollar invested in gold!

To understand how gold is likely to behave as an asset class nowadays, one needs to acknowledge that gold is now treated more like a currency than a commodity by investors seeking to predict its value. As governments continue to devalue their currencies via Quantitative Easing, so the perceived value of gold as the only proper, non paper, currency increases.

Investors remain divided about its merits: the gold bulls talk of $5,000 an ounce (compared to $1,650 today), while others believe it's just another bubble waiting to burst. At Berry, we continue to believe that a modest commitment to gold in portfolios is appropriate – but it's a little like health insurance – we rather hope that the money could have been better invested elsewhere. So far, that has not been the case. And a turn for the worse for the sick nations of Europe will be sure to bolster the case for investing in gold.

Berry Asset Management PLC
79 Pall Mall
London
SW1Y 5ES

t : +44 (0)20 7667 6600
f : +44 (0)20 3427 5400
w : www.berry.co.uk