Gold – the Emotional Commodity that Fits Asia's HNWI Portfolios

Joshua Rotbart, Founder and Managing Partner of precious metals firm J. Rotbart & Co., is passionate about his chosen profession. He says gold is an 'emotional commodity', a term he coined, as gold is something that people not only aspire to, but because as a store of value for investors, it has even more engaging qualities. He told the audience at the Hubbis Asian Wealth Management Forum in Singapore how he is a 'gold person, not a financial person' and that he realized through history how gold will always be valuable, and the longer someone keeps it, the more it will appreciate. He said gold might not make people rich, but that it will help wealthy people and their families retain their fortunes.

ROTBART CLEARLY HAS AN UNWAVERING BELIEF IN the value of holding physical gold. He explained that it is non-correlated to mainstream financial assets, it is a hedge against inflation and currency depreciation, it can easily be bought, stored and insured outside the global financial system, it is highly liquid and, above all else, it has stood the test of the past several millennia as both a store and an enhancer of value.

Physical gold, he told the fascinated delegates, is not a financial product. "That means it can be held privately," he explained. "It can be held directly by the client, or at secure logistics storage facilities in different countries, and clients can then also have access to it. If clients sell, they can get same day settlement as it is highly liquid."

He explained that the precious metals market is monitored by the London Bullion Market Association, which supervises the refiners, the logistics operators, and the entire precious metals ecosystem to ensure it is professional and sound. "As long as you stay within this ecosystem," he reported, "you are fine."

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Asia – a region of 'gold bugs'

Joshua observed that Asian people and investors have long had a love affair with gold. "This region has been a region of gold bugs long before that term was coined," he reported. Wherever you go in Asia, whether Thailand, China, Vietnam or other countries, people buy gold as a gift when a child is born, for cultural or religious ceremonies such as weddings, festivals and other special occasions. They like to buy gold jewellery when they have spare money.

Rotbart explained that the precious metals investment industry has nowadays become highly professionalised in Asia, with an outstanding infrastructure of secure storage and logistics service providers, and insurance coverage, with specialists such as his firm that work in an entirely professional approach with clients who seek to buy, store and sell physical metals, especially gold bullion.

A professional industry

"We offer the professional level of services that investors must seek out for this type of purchase," he reported. "Clients can trade remotely, we work globally, we store gold in many top-flight locations, we offer a worldwide service across all time zones, and when clients call, we answer. We handle all logistics seamlessly, so the client can relax throughout the entire process. We are the one-stop gold-plated service provider."

Rotbart told the audience that his Hong Kong-based firm had for the past nine years been helping individuals, companies and financial institutions buy, sell, transport and store physical metals such as gold, platinum, palladium and silver.

Some do's and don'ts

Rotbart then listed certain 'dos' of buying gold. He advises clients to use a professional company that can provide professional services and storage. Make sure that insurance is in place, make sure there is an insurance policy on your gold, which is itself an insurance policy. Stick to the London Bullion Market Association ecosystem: refiners that are accepted by the market. Gold must be 24-carat investment grade (99.99% pure). "Buy one-kilogram bars, which are the most acceptable in the market, and

avoid working with anyone in the market that might be less than 100% professional."

"When you store gold in secure logistics facilities, he noted, it is stored privately and away from cybersecurity risk. "The risk of someone stealing from a secure storage location in Singapore or in Hong Kong and getting away with it," he commented, "is virtually zero, and if it did happen, it is fully insured."

Gold, he explained, offers long-term returns similar or even better than equities or bonds, and it is important for diversification purpose because when the markets go down, gold tends to go up. Gold, he noted, did not move much in 2018 until equity markets went down.

Gold's golden history

Rotbart then highlighted the ancient history and long 'culture' of gold, which since its first discovery has been a standard of prosperity. Gold, he said, is tangible and in an age where privacy is dying, gold and other tangible assets retain some privacy.

Gold is also trusted, it is liquid, governments buy and hold it, especially these days, USA, Germany, Russia, Kazakhstan, Turkey and China. It is therefore still a core part of our global monetary system, while not being directly exposed to financial intermediaries. It can be cashed in virtually anywhere in the world. And it is highly liquid, as investors can, for example, easily trade USD50 million in a swift phone call.

Gold is also excellent for wealth protection, as it is a stable earner with low volatility, Rotbart explained. "Gold appreciates over time and if you look at the volatility of gold compared to, for example, the S&P 500 Index, at the end of 1999 was at 1,458 and gold was at USD 290/ ozt. At the end of 2017 gold was at USD 1,291/ ozt while the S&P 500 was at 2,673 - A ratio of 4.45:1.83. That is a remarkable outperformance. So, it is an excellent medium to long-term hold."

Keeping stress levels down

"Since the US went off the gold standard, gold has been performing very much in line with both US stocks and emerging markets, and performs far better than cash," Rotbart reported.

"Moreover, if you look at how gold performs in times of market stress, it performs remarkably well when equity markets are going down, at times of global financial stress, so it provides the hedge, the cushion, for your clients to reduce volatility and manage their risk. And as it is separate to the global banking and financial system, there is no counterparty risk. Accordingly,

it is an excellent tool for wealth protection. In short, one can see it as an investment and as an insurance policy."

He also highlighted how USD35 cash in 1965 is equivalent to roughly USD300 today, inflation adjusted. "Well," Rotbart noted, "you can see how gold as a cash substitute performs far better than cash, as today's price around USD1400 is almost five times higher than the adjusted cash price."

Buy the physical

He moved on to why HNWIs should buy physical rather than paper gold. "Even the best gold ETFs are not backed 100% with physical gold," he reported, "Even the very best ETFs, and I won't name names, are not fully backed by the physical asset, as they use derivatives and other instruments to maintain the daily fluctuations. We therefore strongly urge clients who want to do more than simply speculate on gold prices to buy physical for medium to long term holdings. If the ETFs had to be redeemed, they simply would not have enough gold to cover that."

The right amount...

As to how much of any portfolio investors should hold in physical gold, Rotbart cited Ray Dalio, Founder of investment firm Bridgewater Associates, who stated: "...Most people should have roughly 10% of their assets in gold, not only as a good, long-term investment but also for its effectiveness in diversifying the other 90% of assets people hold..."

Rotbart elucidated on why gold is an excellent tool for portfolio diversification. "As a guide, we believe most of our clients hold between 3% to 10% of their assets in physical metals; gold is considered a very good hedge, because historically when the market falls gold will usually fare better."

Adding gold to the wealth manager's suite

Rotbart closed with a word on why wealth management experts, such as those listening to his talk, should include gold in the suite of products and ideas for their clients. "You are bringing in non-mainstream concepts and an additional creative solution," he remarked. "Your clients will appreciate when you offer something that is not necessarily linked to your institution, you can work safely and efficiently with professional firms such as ours, and you can make money from it, as there are transaction fees, storage fees and other recurring fees." ■