

# IS IT TIME TO FOLLOW THE YELLOW BRICK ROAD?



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# INTRODUCTION

***The London Bullion Market Association or LBMA was founded in 1987, and is to all extents the trade association of the over the counter (OTC) market (the physical market) in precious metals. There are over 150 members of the LBMA representing the entire supply chain, from the miners, to the fabricators and on to traders and providers of storage solutions.***

It is therefore always a good idea to keep an eye on the membership of the LBMA, and any changes, in the forms of add-on or subtraction to gauge the institutional focus, in particular of the large global market players. For example, most recently investors (or to some, outright speculators) eyes have been on the recent launch of Bitcoin ETFs, and the opening up of further liquidity sources. Whilst small players issuing Bitcoin (BTC) ETFs might not be notable, when institutions like Blackrock do, then it is time to take note. Unsurprisingly the price of Bitcoin is moving higher with this new liquidity source.

A similar, notable event has happened in the precious metals markets. The LBMA has just announced that Deutsche Bank has joined as a member. Whilst this may for many simply slip under the radar of more seemingly relevant events such as bidding up technology stocks to further oxygen starved heights, Deutsche Bank's membership of the LBMA signals a strategic and secular positioning on the lines of Blackrock issuing BTC ETFs – investors need to take note.

For many gold bugs, there has been a distinct dichotomy between paper trading of precious metals and physical trading. Indeed, the conspiracy theorists have a theory that the paper market is manipulated by Central Banks to suppress gold and other precious metals prices. In this context it is interesting to note that Deutsche Bank is one of the largest liquidity providers in the "paper" market, leading in Loco London, CME and SGE markets, and ranked by Euromoney as No. 1 by volume across all banks in precious metals.

To this extent, when asked for their reason for becoming a Member of the LBMA, the Deutsche Bank spokesperson indicated that the strategic decision was to a great extent driven by their view that we are now seeing the potential end of the big economic cycle that has driven markets for the last 30 to 40 years. This is evidenced by the increase in internal and external conflicts, high levels of debt and budget deficits, rising inequality and extreme political views. In summary, when the world is not looking like a good place, it is time to apply some strategic direction to precious metals investing.

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**For a bank** like Deutsche Bank to do this indicates an important shift and is more often than not, driven by client demand. The bank will not be investing in scaling up its physical trading capability to complement its electronic or paper trading capability unless it is seeing demand from clients and potential for revenue and profits. Indeed, I saw the first steps in this direction in 2013 when with gold prices at just under \$1,400, Deutsche Bank was setting up its bullion storage facilities in Singapore, sadly with the strategy reversed due to its struggles at the time.

The message to those that take note is that when the largest liquidity provider in paper gold and precious metals, establishes itself on the LBMA to deal in the physical market, then something is afoot, and it could well be a seismic shift if they are right in this position.

So what does this mean for investors? The answer is clearly to re-evaluate the Strategic and Tactical Asset Allocations in portfolios of precious metals. Has the asset allocation remained stagnant? Is it re-view mirror facing? Has the CIO or portfolio manager fully evaluated the future risk which may not be determinable by historical risk, and is not discounted in the current asset allocation?

Once asset allocation decisions have been reviewed, execution then needs to be considered. How are precious metals holdings maintained.? Is exposure driven through exchange traded funds such as GLD, or are investors looking to hold bars directly, and if so should this be achieved in allocated or unallocated form? How should bullion be custodied? For example some banks will hold bars as custodians, but

some investors may prefer to acquire and hold through other mechanisms and dealers such as [Global Precious Metals](#).

The move by Deutsche Bank to become a member of the LBMA is not something that a large financial institution takes lightly. Significant resources and headcount have to be applied to such a move, and this would only be undertaken if there is a clear demand from institutional clients. The message for the wealth management industry is that a seismic shift could be underway, and now is the time to re-assess where precious metals sit in a diversified portfolio, and to take pro-active measures to assess and initiate client allocations and focus dependent on their risk parameters and appetite. ■

