

# Gold's Appeal as a Non-Correlated Asset Outside the Global Financial System

*David Fergusson, Chairman of Global Precious Metals spoke at the Hubbis Independent Wealth Management Forum, explaining to the assembled wealth management community that Asia's wealthy investors should hold physical gold to offset volatility in their mainstream financial investment portfolios, as well as because gold is outside the global financial and regulatory infrastructure.*

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**F**ERGUSSON BEGAN BY RECALLING that he started the business some eight years ago when he found that for the family office operation, he could not buy and store gold in a convenient manner. “We had looked at ETFs, derivatives and other options and none of them worked for us from the risk perspective. We made a good decision because we soon found that there were many people with a similar need. And my mission today is to explain to you why we believe gold is a great investment, is a portfolio diversifier and also sidesteps much of the regulatory invasion we are seeing worldwide.”

## **Gold's non-correlation to mainstream markets**

“Gold is a non-correlated asset,” he



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began. “When markets are volatile, gold gives investors some degree of safety within their portfolio that they would not obtain from any other asset class; there have, by the way, been countless economic studies that confirm this view. We believe between 3% and 5% should be standard and between 5% and 15% of a portfolio for any serious wealthy investor is appropriate at times of financial stress.”

Fergusson noted that as he perceives the world of finance today, he feels a sensible gold holding level is somewhere around 8%. “That might feel like a very aggressive portfolio position, but we firmly believe that it is both viable and advisable.”

Fergusson added that he always recommends gold bullion. “At times of major global or local financial distress, you find that the ETFs and the paper gold exposures sometimes move in different ways

due to the counterparty risks within those structures.”

How then should investors buy, move, store and trade gold? “There several ways to hold gold exposure, but first let us distinguish between what is gold exposure and what is gold,” Ferguson reported. “In the paper form, people often buy gold through ETFs, derivatives, and other instruments that give exposure to gold, but that is not our area of expertise and nor do we advise that route as it always injects a counterparty risk into the equation. We believe physical gold is the best option.”

He explained that to do so, a client will either open up an account with a bullion trader or a private bank. “Some private banks still allow people to buy gold, but it is becoming rarer these days as the banks don’t want to get so involved and prefer the derivate routes such

as ETFs. Accordingly, go through a bullion trader, of which we are one, as the best route. You go through the account opening process, a typical KYC process, and then you fund the account and trade.”

### **Yours...with no counterparty risk**

Physical gold, he elucidated, is gold that an investor owns. “It is in your name,” he noted, “it could be at home or held in a vault, but it is always your gold, just like a car parked in a garage belongs to you, although in the case of a vault there is custody involved and insurance and so forth. On the paper side of things, if you own an ETF you do not own gold, you own equity in a fund that also owns gold. And if you own a derivative, you don’t own gold, you own exposure to a contract which may or may not be settled sometime in the future.”

Accordingly, the principal differ-

ence between paper and physical is that physical is owned directly and wholly, while paper gold belongs to another entity that has a form of relationship with the investor through shares or a contract.

### The Black Swan event

“Gold in its pure form is far better should there be a ‘Black Swan’ event,” he added. “Should the mainstream financial markets collapse, potentially risking the foundations of the global financial system, gold is a safe haven. Paper gold in whatever form, is exposed to all that global financial risk.”

Fergusson explained that the storage of gold in a secure vault is most advisable. “We store our gold at a secure LBMA vault. The London Bullion Market Association has approved vaults around the globe and our company, Global Precious

Metals, always advises clients to hold gold through those facilities.”

Fergusson also explained that a great appeal of physical gold is that it is outside the global regulatory proliferation that has been rolling out in recent years.

### Confidentiality

“One of the benefits about gold is obviously that it is a confidential asset, so it sidesteps all the global regulations aimed at curtailing your freedoms and making sure that your financial service provider spends their time reporting on you to the authorities. Gold like diamonds or other physical assets does not currently have that same reporting trail.”

“Let’s be realistic,” Fergusson added, “the global financial system is slightly precarious at the moment and the governments of the world

are just sitting back, dreaming up and inventing new ways to tax you or simply take your money away. Whereas with gold your clients’ money in gold is confidential.”

Fergusson concluded his talk by offering some personal views on the state of the world’s financial system. “I might seem like the doom-laden ghost at the banquet,” he said, “but I have serious concerns about the levels of debt in the world. The global financial crisis settled down some eight or nine years ago, but since that time global debt has increased and we wonder frankly if the precarious nature of the financial system has in fact only worsened in the past decade. I like assets that are safe, that cannot be taken away from you, that governments cannot expropriate. And for all those reasons, I have a strong preference for gold.” ■

