

## Philequity Corner (December 13, 2010)

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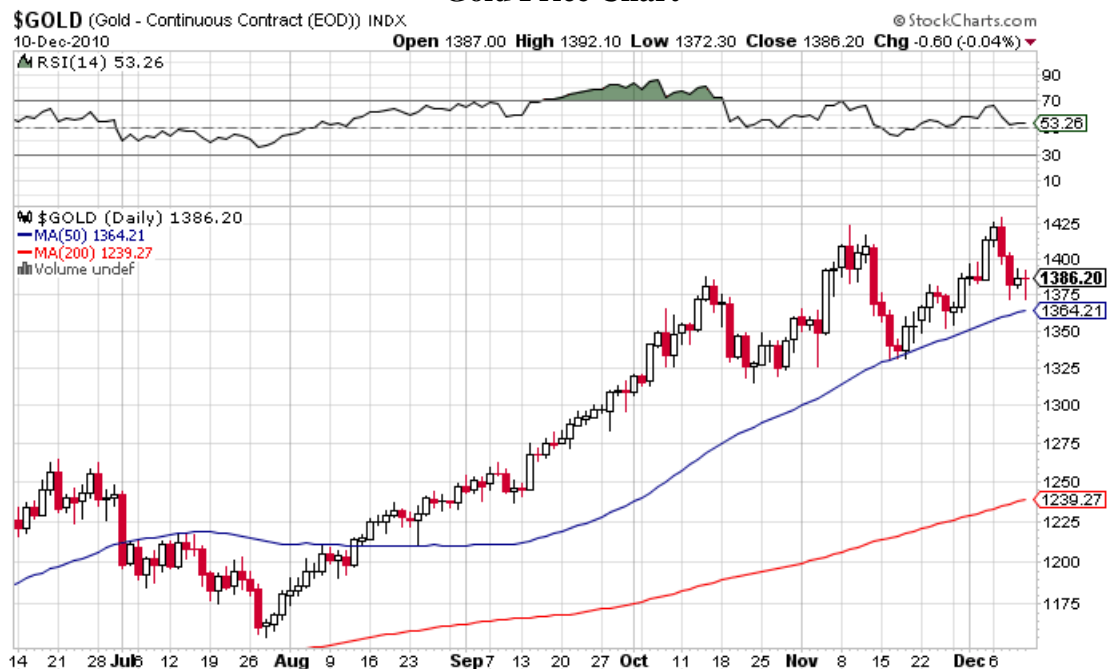
### Gold Sparkles

Gold continues to march steadily higher. It touched a high \$1,430.6 per ounce before correcting to \$1,384.3/oz. Since the start of the year, gold has appreciated by 26.7% in value and has performed well ahead of major equity indices in the world.

#### Gold versus Major Equity Indices

	Jan 1 2010	Latest	Return
DJIA	10,428.0	11,410.3	+9.4%
S&P 500	1,115.0	1,240.4	+11.2%
Nasdaq	2,269.2	2,637.5	+16.2%
FTSE 100	5,412.9	5,813.0	+7.4%
CAC 40	3,936.3	3,857.4	-2.0%
Nikkei 225	10,546.4	10,212.0	-3.2%
SSE Component	13,700.0	12,460.5	-9.0%
Sensex	17,464.8	19,508.9	+11.7%
S&P/ASX 200	4,871.0	4,745.9	-2.6%
Gold	1,092.50	1,384.30	+26.7%

#### Gold Price Chart



As the year 2010 draws to a close, many market forecasters are coming up with their respective prognosis on gold for the coming year. They believe that the precious metal will continue to move higher.

## Will Gold keep its Luster in 2011?

Leading foreign investment houses such as Goldman Sachs and UBS are maintaining a positive outlook on gold. Goldman Sachs is forecasting that gold will reach \$1,690/oz. in 2011 while UBS is targeting \$1,500/oz. At current levels, these price targets present an upside potential of 22.1% and 8.4%, respectively.

### Reasons for Gold to Shine

In our past articles on gold (see *All the glitters is gold...* 23 February 2009 and *Gold Rush* 30 November 2009 articles of the **PhilStar**), we have cited numerous reasons for the precious metal's continued appreciation. Now, we are citing the pertinent ones for 2011.

- 1. Gold is an asset class.** Gold is not anymore considered as an "alternative" asset but an asset class on its own. Fund managers have incorporated gold into their core investments. Given the volatility of equity markets and the low yields on bonds, gold provides a balance to the investment mix. Gold is a safe bet as it is a store of value, and yet it presents decent returns. The thriving gold ETF (ie., Exchange Traded Fund) validates gold as an asset class.
- 2. Gold is a hedge against inflation and uncertainties.** As Asia tries to combat rising rates of inflation, gold, as a natural course of investment action, stands to benefit. The debt problems surrounding the Eurozone and the tension between North and South Korea add to gold's investment appeal.
- 3. Gold benefits from QE-II.** The Fed's announcement last November of a second round of quantitative easing amounting to US\$600 billion, which essentially allows the printing of more Benjamins, presents a dismal outlook for the dollar. As a direct result, gold benefits from the weakness of the dollar.

The downside risk for gold is a rise in interest rates. This is the current debate Wall Street tackles. Higher inflation and a healing US economy both point to a hike in interest rates. Depending on the extent of rate increase, this would have the tendency of attracting investors' speculative money, hence, investments in gold may soften.

### How to Buy Gold?

Local investors can participate in many ways. One can buy gold bullions, gold jewellerys, or even gold bars. But buying gold in its physical form can pose security risks. Many investors are now looking at ETFs as proxies for the actual asset. The symbol for gold ETF is GLD. There are also gold mining companies ETFs such as GDX and GDXJ. Alternatively, investors can buy stocks of gold mining companies listed in many countries. In the local stock market, investors can participate in gold thru the PSE's listed gold mining companies.

## **Gold Plays in the PSE**

Philex Mining Corporation is the biggest and most profitable gold mining company in the country with a market cap of Php71.3 billion. It is looking at potential acquisitions to plug concerns on depleting reserves. The next gold mining issues with long-term growth potential are Lepanto Consolidated and Manila Mining, whose market caps are Php16.5 billion and Php4.3 billion, respectively. Lepanto recently struck a deal with Goldfields for a total consideration of \$340 million (see ***Fly High*** 27 September 2010 article of the **PhilStar**). Manila Mining, on the other hand, remains a likely target of Manny Pangilinan of Philex Mining / First Pacific.

## **Infusing Gold in ones Portfolio**

As a portfolio manager, it is always a good to place a part of your investments in gold or gold equivalents. Veteran asset managers recommend that about 5% to 10% of one's total assets be invested in gold.

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