

Philequity Corner (09/05/2011)

By Valentino Sy

The Gold Hoarders

Over the weekend, world stock markets continued to be volatile, dropping more than 2% as US employment unexpectedly stagnated in August 2011. In contrast, gold spot price was up 3.2% last Friday and closed at \$1,886.4 / oz., after closing at \$1,754.0 / oz. on August 24, 2011 and reaching an intraday low of \$1,705.4 / oz. on August 25, 2011.

All that Glitters

As we have discussed in a previous article (*PSEi, all-time high*, July 18, 2011), stock markets have been volatile this year due to various macro events that happened in 1H2011. More recent developments, such as the historic US credit rating downgrade, the unfolding European debt crisis and the continued weakness of the US and European economies have further exacerbated market volatility for the month of August 2011 (see *Panic in the streets*, August 8, 2011 and *Bad news, good news*, August 15, 2011). Against this backdrop of fear and uncertainty, gold has significantly outperformed as an asset class. As shown in Table 1, most stock market indices performed poorly year-to-date (YTD) and are down sharply for the month of August 2011. In contrast, gold price is up 32.7% or \$465.0 / oz. YTD. Moreover, gold price gained 12.2% or \$198.6 / oz. for the month of August 2011 alone.

	YTD	Aug '11
S&P 500 Index	-6.7%	-5.7%
MSCI Emerging Markets	-12.8%	-9.3%
FTSE 100 Index	-10.3%	-7.2%
PSE Index	4.6%	-3.4%
Gold - Spot Price	32.7%	12.2%

Source: Technistock, Stockcharts.com, Wealth Securities

As Good as Gold

The strong movement of gold price has boosted the popularity of the SPDR Gold Trust (GLD), a gold-dedicated Exchange-Traded Fund (ETF) which closely tracks the price movement of the precious metal and is backed by physical gold. Through GLD, institutional and individual investors can invest in gold without having to buy and store physical gold. GLD's increasing popularity has allowed it to temporarily overtake SPDR S&P 500 (SPY) as the world's largest ETF in terms of market capitalization. This is an important milestone for GLD considering that SPY, which tracks the S&P 500 Index, has been the world's largest ETF since 1993 and SPY's market capitalization was 56% larger than that of GLD during the start

of the year. Though SPY has since reclaimed its position as the world's largest ETF, this marks a shift in asset allocation strategies, as investors and even central banks increase their gold holdings in order to insulate themselves from volatile market conditions.

The Top Gold Holders

As seen in Table 2, the central banks of the world's biggest countries are the top holders of gold, as most of them keep a significant portion of their reserves in gold.

Rank	Country / Institution	In Billion USD	In Tons
1	United States	522.2	8,965.6
2	Germany	218.3	3,747.9
3	International Monetary Fund	180.6	3,101.0
4	Italy	157.4	2,701.9
5	France	156.3	2,683.8
6	SPDR Gold ETF (GLD)	70.7	1,213.9
7	China	67.7	1,161.6
8	Switzerland	66.8	1,146.2
9	Russia	54.0	926.9
10	Japan	49.1	843.3
11	Netherlands	39.3	674.9
12	India	35.8	614.6
13	European Central Bank	32.2	553.3
14	Taiwan	27.2	466.8
15	Portugal	24.6	421.5

Source: CNBC, World Gold Council

US is still the largest gold holder with 8,965.6 tons, estimated to be worth \$522.2B, representing more than 70% of its reserves. Most of the US gold holdings are kept in Fort Knox, the most famous gold stockpile in the world. European countries such as Germany, Italy and France are among the top holders of gold, as their gold holdings account for more than 66% of their reserves. Asian countries such as China, India and Japan are also among the top gold holders, although gold holdings account for less than 10% of their reserves.

Philippines Among the World's Top Gold Holders

We estimate the Philippines to be among the top 25 gold holders, as the Bangko Sentral ng Pilipinas (BSP) maintained gold reserves worth \$7.7B as of end-July 2011, representing 10.7% of the country's reserves. BSP Governor Amando Tetangco, Jr. has hinted that local monetary authorities are looking at increasing BSP's gold holdings in order to diversify the country's reserves. This will reduce the portion of the country's reserves that are in US sovereign debt, in light of the recent US credit rating downgrade and the continued weakness of the US dollar.

Following the Central Banks

The wild gyrations of global stock markets this year have so far supported the re-emergence of gold as a viable and stable store of value. As the world's central banks maintain sizable portions of their reserves in gold holdings, should individuals follow suit and allocate a certain portion of their savings and investment portfolios in gold?

Wives Trounce Their Husbands' Portfolios

Over the weekend, we attended a mini-reunion of Xavier alumni. In that reunion, the husbands were lamenting about the losses in their global equity portfolios. On the other hand, the wives were delightfully chatting about their investment skills while preaching about the wisdom of investing in gold, diamonds, precious stones and other jewelry. For the year, many housewives' portfolios have soundly beaten the performance of fund managers, unless the portfolio managers bought gold stocks like Philex Mining, Lepanto Consolidated Mining or Manila Mining.

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