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Gold Investment

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Three Things

You Need to Know About Gold Investment!

01 Why invest in gold?

Gold for Hedging

Gold is a unique asset: it is highly liquid and scarce; it is both a luxury and an investment channel. Gold does not require anyone's payment commitment, and there is no counterparty risk. Therefore, it can play a fundamental role in the investment portfolio. During periods of market weakness, gold is a diversification and detrimental tool. It can play a role in offsetting inflation and currency risks.

Key facts investors should know:

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- There are many factors behind gold becoming a mainstream asset, not just investment demand.
- Gold is one of the most effective diversification tools
- Compared with other major financial assets, gold can provide competitive returns.
- Gold provides downside protection and positive return performance
- Over time, the price of fiat currencies, including the U.S. dollar, tends to fall relative to gold.

Effective return:

Combining the above factors means that adding gold to the investment portfolio can increase risk-adjusted returns. As a small savings, or a larger long-term investment, buying gold or gold-backed financial products can protect wealth and increase adjusted risk returns. The allocation of a small amount of gold products in a balanced investment portfolio can potentially reduce the overall investment risk and help withstand market volatility.

Having physical assets with long-lasting value is undoubtedly reassuring. In addition, investors buy gold out of many reasonable financial considerations. Generally, investors believe that other channels should hold gold when the risk is high, and sell gold when the economy is booming. However, economic growth has a positive impact on gold consumer demand, and consumer demand accounts for the largest part of the annual demand.

In the long run, the rate of return on gold has been encouraging, often surpassing major asset classes.

But how much gold should investors increase their holdings to achieve the greatest gains? Asset portfolio allocation analysis shows that investors' portfolio allocation of 2% to 10% of gold can significantly improve return performance. This is true even with a conservative average annual return rate of 2% to 4% (far below its actual long-term historical performance).

Gold for Hedging

Regardless of the market conditions, there are people who have a certain degree of doubt about the benefits of risk diversification. Correlation tends to increase as market uncertainty (volatility) increases, partly because of risky investment decisions. And many so-called risk diversification tools cannot deliver on promises when investors need them most.

Due to its dual characteristics as a consumer product and investment, the long-term price trend of gold is supported by income growth, but in the short and medium term, the price of gold tends to rise in uncertain times.

As a by-product, the correlation between gold and most assets is very low, no matter in the period of expansion or in the period of economic recession. When the stock market experiences a strong retracement, there is an increasingly negative correlation between gold and stocks and other risky assets. However, during a bull market in the stock market driven by positive income effects, the price of gold usually increases.

02 How to invest in gold?

There are many ways to invest in gold. A variety of investment goals can be achieved through a variety of different products.

Investors should comprehensively consider the product choices available in their markets, investment methods suitable for their actual conditions, and what professional advice they need.

Various gold-related investment products have different risk and return rates, as well as different liquidity and expense levels. Generally, asset allocation strategies consider the comparison of long-term and medium-term returns, the positive and negative correlations between gold investment products and other assets, and the corresponding performance.

Gold coins

In the past ten years, small gold bars and gold coins accounted for about two-thirds of the annual physical gold investment demand and about a quarter of the global gold demand. These small gold bars and coins have many denominations and gold content (also called thousand-point purity).

Internet investment gold

Internet Investment Gold (IIG) allows investors to purchase physical gold online and allows providers to store the gold they purchase on behalf of the investor. The business of such products has grown substantially in the past 10 years, and new players continue to emerge.

ETFs and similar products based on gold

Trading open-end securities investment funds (ETF), exchange-traded commodities (ETC) and similar funds based on physical assets account for about one-third of investment demand. These funds were first launched in 2003, and since then, global investors have held a total of 2,300 tons of gold.

Gold derivatives: futures, forwards and options

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Allocate gold account

Gold savings banks and many gold dealers provide customers with gold accounts, which consist of gold deposits and are similar to currency accounts. When a customer orders a certain number of grams or ounces of gold, the accepting bank will purchase the gold for the customer, and then electronically credit the transaction to the aforementioned account.