Gold enhances portfolio performance and reduces risk for investors in alternatives

A distinct allocation to gold within a portfolio including alternative assets such as private equity, hedge funds, real estate and commodities, can preserve capital and reduce risk without diminishing long-term returns, concludes the latest research from the World Gold Council.

The report, *Gold: Alternative investment, foundation asset*, analyses the effect gold has when included in a portfolio of mainstream and alternative assets. The research shows that portfolios with an allocation to gold of between 3.3% and 7.5% (depending on the risk tolerance of the investor and the currency of reference)\(^1\) show higher risk-adjusted returns while consistently lowering Value at Risk (VaR).

Juan Carlos Artigas, Investment Research Manager for the World Gold Council, said: “Alternative assets have gained acceptance among private and professional investors over the past decade as they look to increase risk-adjusted returns. However, many of these assets can have higher correlations to mainstream assets than investors once thought. Including gold can produce distinct benefits to the performance of an alternatives portfolio due to its deep liquidity, low correlation to most asset classes and outperformance during periods of systemic risk.

“Gold’s unique characteristics make it a good source of diversification, and also provide a foundation which investors can use to manage risk and preserve capital.”

Given the current economic climate, the report also explores the past performance of diversified portfolios during periods of financial stress. The results highlight that on multiple occasions gold would have reduced the loss during these periods of stress while keeping similar or better risk-adjusted returns over longer periods of time.

Highlights from the report include:

- New money into hedge funds and private equity has doubled AUM over the past decade. Over the same period, gold holdings by private investors have increased by 24%. Gold remains an under-owned asset making up only 1% of global financial assets in private hands.

\(^1\) The paper concentrates on standard portfolios (with a 55% allocation to equities, 25% to fixed income, at most 5% to cash, and the remaining 15%-20% distributed optimally among alternative assets) as well as conservative portfolios (30% equities, 50% fixed income, at most 10% cash and the remaining 10%-20% distributed optimally among alternative assets) for investors with a US dollar, euro, and pound sterling perspective.
• Gold helps to manage risk effectively by increasing risk-adjusted returns and reducing extreme losses for a range of portfolios combining traditional and non-traditional assets.

• The benefit of holding gold within a portfolio cannot be replicated by solely investing in non-traditional assets.

• Gold acts as a cost-effective form of protection that does not negatively affect and sometimes benefits long-term expected returns, while reducing risk in times of economic turmoil.

• During seven periods regarded to be ‘tail-risk’ events from January 1987 – June 2011, portfolios that included gold tended to perform better (by either posting gains or reducing losses) than those without.

• An allocation to gold can benefit investors with different levels of risk tolerance and diverse allocations denominated in US dollars, euro and pounds sterling.

The full report can be viewed at: www.gold.org/media/

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Note to editors:

World Gold Council

The World Gold Council is the market development organisation for the gold industry. Working within the investment, jewellery and technology sectors, as well as engaging in government affairs, our purpose is to provide industry leadership, whilst stimulating and sustaining demand for gold.

We develop gold-backed solutions, services and markets, based on true market insight. As a result, we create structural shifts in demand for gold across key market sectors.

We provide insights into the international gold markets, helping people to better understand the wealth preservation qualities of gold and its role in meeting the social and environmental needs of society.

Based in the UK, with operations in India, the Far East, Europe and the US, the World Gold Council is an association whose members include the world’s leading and most forward thinking gold mining companies. For further information visit www.gold.org.