

Gold: Goldilocks scenario!




Microscope

To invest in gold, investors can purchase gold bars and coins directly. However, the storage cost and liquidity risk should be taken into account. Alternatively, shares of gold miners can offer similar opportunities. However, since they benefit disproportionately from a rise in the price of gold as their production costs are fixed and they may finance their operations with debt. This means that miners are a more-leveraged way to play gold than the metal itself, particularly since surging speculative demand can increase mining companies' PE multiples. Moreover, investors may be exposed to corporate-specific risk too. That's why someone says shares of gold miners are the leveraged tools to participate in gold investing. The other choice is gold shares' exchange-traded fund (ETF). You can think of an ETF as a mutual fund that you can trade like a stock. As an investment, the ETF is more convenient than buying gold bars directly. The fund's share price fluctuates in concert with the price of gold. For those investors who can tolerate higher level of risk but would like to secure regular income, the gold-linked product may be the other option. 

Although gold price has undergone bull run for almost a decade, it can climb further since the influences and events that affect its price are not simple commodity supply/demand fundamentals, but the more complex global monetary issues. In 2009 gold resumed its historical monetary role - as the anti-currency. For the past few years, Wall Street made some unprecedented losses, which, in turn, passing on to the American taxpayer and investors. For their incompetence and greed, most of the company heads responsible were rewarded with generous severance packages. Even more surprising, perhaps, is that one year later many of these people continue to advise the US government's financial policy makers. Since the same key figures remain firmly in charge of US fiscal policy, it is expected the status quo will continue until the ship finally hits the iceberg. In fact, the central bank has pumped more

than \$2 trillion into the US economy since the financial crisis began more than two years ago. It has lowered its benchmark Federal Funds rate to a record-low range of 0%-0.25%, pumping huge amount of liquidity into financial markets. In addition, as a whopping budget deficit continues to balloon, the Federal Reserve is in no place of raising rates very soon, and central banks all over the world are required to diversify away from the dollar. All these become the main catalysts for gold's continued rise. Fundamentally, gold price is affected primarily by physical demand. The year of 2009 was the first time in 20 years that gold purchases for investment purposes outpaced gold purchases for jewellery demand. For the first time in over 20 years, central banks became net buyers rather than net sellers of gold. This is a watershed event.

India for the past 15 years had largely neglected its gold reserves. Its gold holdings peaked at 20% of its foreign exchange reserves - all the way back in 1994. Since that time, India's gold holdings had fallen. India's gold holdings as a percentage of foreign reserves are now higher than even China's. The People's Bank of China holds almost 1,100 metric tons of gold, equal to approximately 2% of its foreign currency reserves. It was believed that India's highly publicized purchase, which was made when prices were near record highs, will spawn a chain reaction in which other countries and investors ramp up their gold purchases. This is because central banks are assumed to be conservative institutions and India's move is a sign for other central banks and sovereign wealth funds that were contemplating buying gold. 

MARKET BRIEFING


YTD % (local curr)

US DJ	10,566 (1.3%)
Nasdaq	2,326 (2.5%)
Euro Stoxx 50	2,877 (-3.0%)
HSI	20,787 (-5.0%)
Japan NK225	10,368 (-1.7%)
China Shanghai Composite	3,031 (-7.5%)
Singapore	2,790 (-3.7%)
India BSE30	16,994 (-2.7%)
Brazil BOVESPA	68,846 (0.4%)
Aus All Ord	4,773 (-2.2%)
US-10yr Bond	Yield 3.68%

As at 05/03/10


Insight: "Formula Investing"

Usually, investors would like to find out how to outperform market averages by following a simple process of investing in good companies at bargain prices and with promising prospect. But it involves analysis or even gut feeling. Sometime, investment decision may be affected by emotion. The concept behind formula investing is simple, which systematically follows a strategy which is designed to be relentlessly logical, disciplined and emotion-free. Investor who adopts a buy-and-hold strategy may find it is difficult to determine whether he should sell those assets which have risen too far and too fast. As the

shift in the values of assets cause a drift from the initially established asset allocation weighting, investor may choose to adopt a constant-weighting approach to asset allocation. With this approach, he can continually rebalance his portfolio to avoid overweighting on those overvalued assets or underweighting on those assets at bargain. For example, if one asset were declining in value, you would purchase more of that asset, and if that asset value should increase, you would sell it. Since there are no hard-and-fast rules for the timing of portfolio rebalancing under constant-weighting asset allocation, a common rule of thumb is that the portfolio should be rebalanced to its original mix when any given asset class moves more than 10% from its original value. But it usually depends on the risk tolerance of each individual. 

Financial "In & Out"

IN: Asian currencies may resume their bull run after consolidation during the first quarter this year due to rising risk appetite and improving outlook for the region's export.

OUT: Emerging Europe currencies may face selling pressure amid concerns over the rising budget deficit and difficulties in bond issuance by government bodies. 



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