

Gold – A unique asset class

Gold is unlike all other elements on earth. Human beings have been utilising gold as both a form of currency and an investment for thousands of years. It is durable and has excellent liquidity as one of the world's deepest commodity markets, second only to oil. Gold offers investors an attractive opportunity to diversify their portfolios – potentially reducing overall portfolio risk

The enduring archetype

The history of gold is as old as time itself. With references to gold in the text of Genesis, to the myths of Jason and King Midas and the legend of King Solomon's mines, gold has long been a symbol of wealth, freedom and power. Empires and nations – from Charlemagne to the Spanish conquest of the 'New World' and through the American frontier movement – were mobilised by the pursuit of gold or built upon its promise.

Though its first use appears to have been for ornamentation, sculpture or jewellery, gold has been employed most prominently through the ages as a store of financial value – or as currency. From ancient Egypt to modern-day Britain, gold became the standard medium of exchange for trade and was the standard measure upon which monetary systems were based.

Uses for gold today

Highly malleable, ductile and impervious to tarnishing, gold is one of the most beautiful and useful elements in the world. It can be hammered into sheets so thin that light can pass through, and a single ounce can be drawn into a wire 50 miles long. Gold's chemical and physical properties make it valuable in a wide array of everyday applications. Though jewellery accounts for about 68% of the annual consumption of gold today, gold is also used in telecommunications, information technology and various industrial applications. Highly conductive, gold is used in the manufacturing of millions of computers each year, as well as millions of televisions, DVDs, video cameras and mobile phones. Additionally, because it is non-toxic and biologically benign, gold has proven to be a valuable tool in the treatment of medical conditions – from heart disease and prostate cancer to bacterial diseases and arthritis.

Why invest in gold bullion?

Diversification Market cycles are unpredictable, making timing the market a risk-laden undertaking. As a result, investors should consider

diversifying among a variety of different asset classes. A broadly diversified portfolio that holds a wide range of asset classes – including gold – potentially provides downside protection against short-term underperformance. However, diversification neither ensures profit nor provides a guarantee against loss.

Risk management Price movements in gold bullion tend not to move in tandem with those of traditional asset classes, such as equities and real estate. In other words, gold is considered to be uncorrelated with those asset classes. Historically, gold has shown statistically insignificant correlation with equities and other conventional asset classes. Although the aim of diversification is to hold a wide array of assets that perform differently from one another under various market conditions, data has suggested that equity markets tend to become more closely correlated during periods of market turbulence. Conversely, commodities tend to become less correlated with major asset classes during such periods.

Attractive properties in any economic environment Gold is accepted the world over. Due to its lack of correlation with traditional asset classes as well as with major economic variables, gold may be useful to diversify a portfolio. When used in the construction of diversified portfolios, gold potentially helps reduce overall risk to a portfolio; however, as with all investments, investing in gold is not without risk.

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