

## Gold as a Dollar Hedge

*While the dollar has recovered a bit from the all-time lows seen in 2008, it continues to fluctuate versus the euro and other major currencies, trending down through much of May 2009.<sup>1</sup> In addition to dampening the overseas travel plans of American tourists, the dollar's position is causing investors to more actively seek alternative investments to diversify their portfolios and provide a hedge against inflation.*

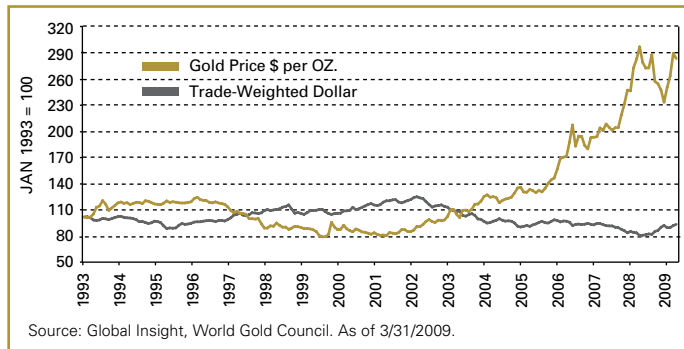
A study published by the World Gold Council in 2006 examined the link between the US dollar and 22 commodities, including heating oil, gold and live cattle. Most commodities are priced in US dollars, so they tend to rise in price when the dollar weakens and decrease when the dollar strengthens. The study found that of those commodities, gold is one of the best hedges against the dollar. It provides protection when investors need it most (when the dollar loses value), while retaining more of its value in better times for investors (when the dollar value goes up).<sup>2</sup>

### THE UNIQUE ATTRIBUTES OF GOLD

Notably, like all physical commodities, gold has no credit risk since a tangible good backs up the investment. Unlike other commodities, however, gold can be used as currency. Gold is durable. It also has excellent liquidity (the ability to convert an asset to cash quickly), as one of the world's deepest commodity markets, second only to oil.<sup>3</sup>

In part, geopolitical turmoil has led to more demand for gold, as investors look for stable investments that can be easily liquidated. Demand for gold is expected to increase while supply decreases.

**FIGURE 1: GOLD AND THE DOLLAR (INDEXED) 1993 - 2009**



### WHY INVEST IN GOLD

**PORTFOLIO DIVERSIFICATION** Stocks, bonds and cash are traditional portfolio assets. To help further diversify their portfolios, investors should consider adding uncorrelated or lowly correlated investments, such as gold and other commodities. Changes in the price of gold do not correlate with changes in the price of other assets, making gold an effective portfolio diversifier.

**SUPPLY AND DEMAND** While the demand for gold is increasing, supply is decreasing. Barrick Gold, the world's biggest producer, predicts a 10-15 percent decline in global mine production by 2014. Mine supply also fell to a 10-year low in 2008.<sup>4</sup>

**DOLLAR HEDGE** Weakness in the dollar is favorable to gold (when the dollar is down, gold tends to be up and vice-versa). As a result, gold is considered an alternative investment to the dollar. A weak dollar, which remains the world's main trading currency, also makes gold cheaper for those holding or trading in other currencies.

**INFLATION PROTECTION** Research has shown that gold can hold its purchasing power. The price of gold, historically, has kept pace with inflation as measured by the US Consumer Products Index (See Figure 2 on next page, "Gold vs. Inflation").

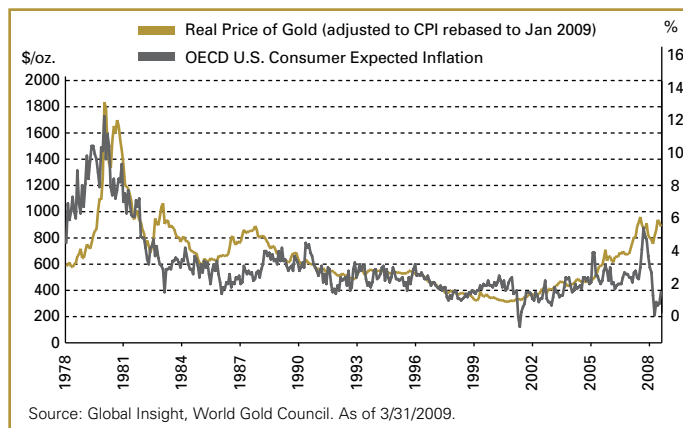
Gold can be an effective tool to diversify your portfolio, provide liquidity, and serve as a hedge against the weakening US dollar and inflation.

#### NEW WAYS TO BUY GOLD

Although gold has been used as currency since early civilization, it may not be the first investment that comes to mind for many people. Investing in gold used to mean buying coins, bars and jewelry. Now, there are more opportunities for investors who want to buy gold or add it to their portfolios. Investors have several options to invest in gold:

- For investors who want to take physical delivery of gold, gold coins, bars and jewelry are available
- Alternatives for adding gold to an investment portfolio include:
  - Gold-backed securities
  - Futures
  - Exchange traded products (ETPs) that track the price of gold, and are backed by gold bullion and trade like securities on stock exchanges

FIGURE 2: GOLD VS INFLATION



#### TALK TO YOUR FINANCIAL ADVISOR

If you are interested in investing in gold or you want to learn more about how gold may fit into your investment plans, contact your financial advisor.

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<sup>1</sup> [www.bloomberg.com](http://www.bloomberg.com), DXY: IND Dollar Index Spot.

<sup>2</sup> Source: World Gold Council Archives, Commodity Prices and the Influence of the US Dollar, January 2006.

<sup>3</sup> Source: GFMS Limited, World Gold Council.

<sup>4</sup> Source: GFMS Ltd.

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