AJBell Investcentre

Fundamentals with Tom Selby

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Hello, I'm Tom Selby, AJ Bell's Senior Analyst, and welcome to Fund-amentals, where I'm going to look at the single most popular Exchange-Traded Fund on the AJ Bell Investcentre platform right now, namely the iShares Physical Gold ETC.

[CAPTION iShares Physical Gold ETC (GBP) EPIC code – SGLN SEDOL – B4R1D93 ISIN - IE00B4ND3602]

This tracker product is an Exchange-Traded Commodity. It is designed to track, or mirror, the performance of the underlying assets and deliver that performance, minus any running costs. This means the tracker is following the day-to-day price movements of gold bullion.

The iShares Physical Gold ETC seeks to do this by physically holding the gold bullion through its custodian, JP Morgan. The gold bullion backs the securities issued and is valued daily at the London afternoon fix price.

The product comes with a charge of 0.25 per cent.

The tracker has a Net Asset Value of around £2billion. It is just over five-years old and sits at six out of seven on the Morningstar risk ratings, meaning it is a potentially high risk investment where returns could be very high … or very low.

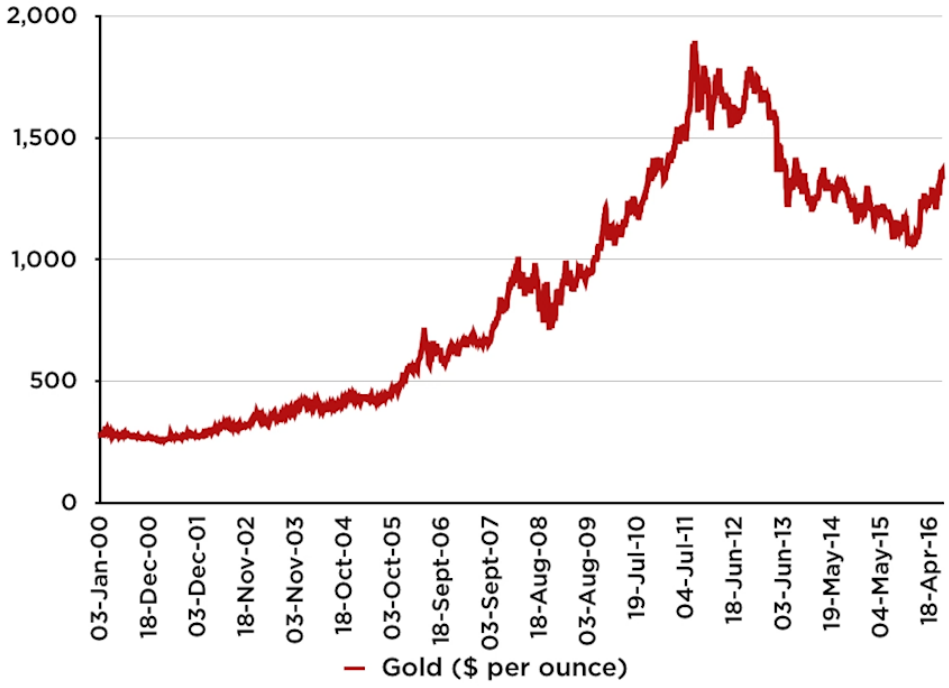
Those are the basics, but why exactly are advisers and clients purchasing this product now?

Well, one word springs to mind when considering the popularity of gold (or a gold-tracking ETC) – volatility. Markets have been very up and down, down and up in 2016 at a time of considerable economic uncertainty.

The US Federal Reserve raised interest rates in December, while a number of Central Banks have moved to cut rates and extend Quantitative Easing in a bid to boost growth.

Chuck in a dose of post-Brexit vote fear and you've got a pretty fruity cocktail of macro-economic and political uncertainties weighing on markets.

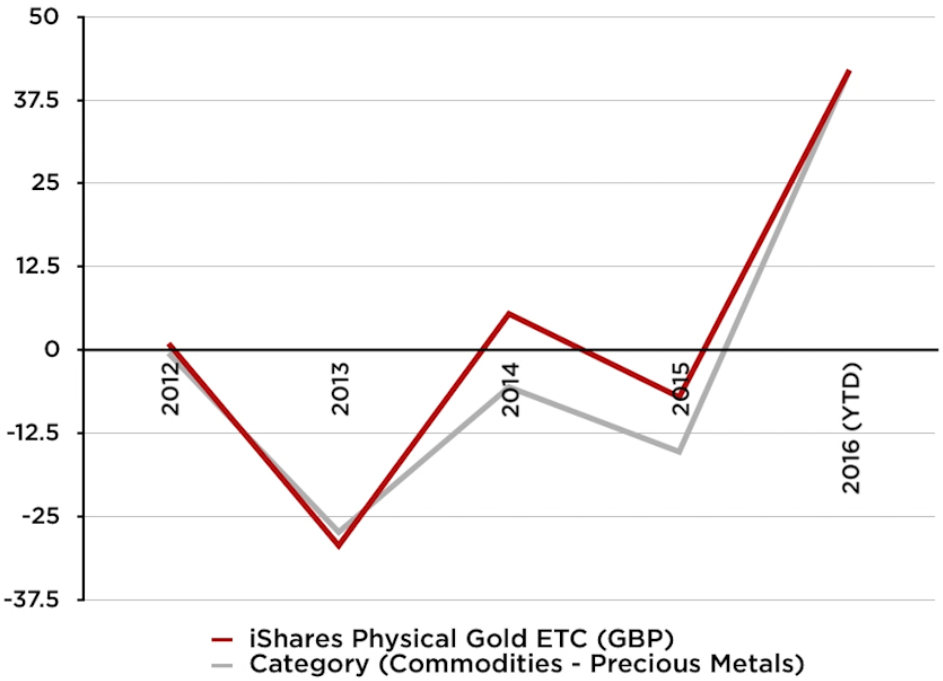
In times of uncertainty, gold – and in this case a gold bullion-tracking product – is often viewed as a safe haven for nervous investors. Gold surged higher between 2008 and 2011, for example, as the world was in the grip of the financial crisis.



Gold is also particularly difficult to source and produce, meaning supply can only grow slowly. Contrast this to paper money, which banks can and have created through extensive QE programmes. Gold might therefore be viewed by advisers and clients as a protective shield against Central Banks being overly zealous in their efforts to hit their 2 per cent inflation targets.

Finally some Central Banks have moved to introduce NEGATIVE interest rates, meaning you have to pay for the privilege of storing your money with the bank. Advisers and clients may therefore look at gold as a potential alternative to cash in these circumstances.

So how has the iShares Physical Gold ETC fared? Well, given its six out of seven risk rating, it's no surprise to see its performance has swung around a lot, mirroring moves in the underlying metal:



However, the ETC has outperformed others in its category since mid-2013 and delivered stonking returns of over 42 per cent in the year to date. Such returns obviously come with high risks, but those who backed gold at the beginning of the year have been richly rewarded.

This is not to say future strong returns are guaranteed and many advisers and clients may distrust gold for three reasons:

Firstly, gold has limited industrial use – you can't build or manufacture products with it. It generates no yield or cash and, therefore, has no intrinsic value at all.

Second, it isn't really a cheap alternative to cash. While negative interest rates mean you might be paying to store your cash with a bank, gold tracking products also charge a fee – in the case of the iShares ETC 0.25 per cent.

Finally, as I suggested earlier, gold tends to perform most heroically when everything else is suffering. So if the markets decide the Central Banks stimuli are going to get the economy going again, gold returns may well hit the skids.

That's it for this week's Fundamentals. Thank you for watching and I look forward to seeing you next time.

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