

# REGIONAL NEWS

## MY ASSET ALLOCATION: WILLIAM BUCKHURST

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In the Wealth Manager Profile on 3 September, David Miller talked about commodities being one of Cheviot's top five picks and the CF Cheviot Balanced fund has recently added to its position in a precious metals funds. Gold is traditionally seen as a safe haven that benefits during periods of financial dislocation, yet during 2008 it rose by only 6% in US dollar terms whereas other safe-haven assets such as government bonds and the US dollar soared.

One explanation for this anomaly is that the second half of 2008 was as much about liquidity (or the lack of it) as about falling profits and recession, and gold was an area where cash-strapped investors could easily liquidate their holdings to meet margin calls elsewhere. Another is that gold is subject to supply and demand balances and the global recession has inevitably resulted in weaker demand for jewellery. Finally, it was a period when the US dollar rose strongly, which is historically a negative for the gold price.

So if it failed to serve its purpose last year, why have we been adding exposure to gold? The answer lies in the monetary function of gold and our concerns over the consequences of the unparalleled experiment that western governments are carrying out with their public finances. In the UK alone, the Bank of England has printed £175 billion of new money, which must inevitably lower the purchasing power of sterling. Gold's relative rarity means you can't print more of it as you can with dollars, euros or sterling. It remains the ultimate store of value and the only truly safe currency out there. As such, precious metals should always hold a valid place in a well-diversified portfolio and now looks like an opportune time to buy.

This is true now, as the Chinese authorities recently started running adverts extolling the advantages of owning gold. And China's biggest bank, the ICBC, has set up a division to cater to increasing demand. So if gold investment is set to become the next craze for 1.3 billion Chinese people, we'd like some in our portfolios first.

