

"GOLD" RISK FREE INVESTMENT: Goldman Sachs

NEW YORK, January 28: Gold provided the best returns of all commodities in the past five years when adjusted for volatility, and Goldman Sachs says the rally will continue as options traders signal no change in the metal's relatively low risk.

The Bloomberg Riskless Return Ranking shows the Standard & Poor's GSCI Gold Total Return Index produced a 6.5% risk-adjusted return in the five years ended on Wednesday, the highest among 24 commodities tracked by S&P, data compiled by Bloomberg show. Silver, the next-best performer, yielded a risk-adjusted gain of 3.1%, while a total-return index for all raw materials slipped 0.2%.

Bullion, which has seen 11 years of gains as investors sought a haven amid two bear markets in stocks and a sovereign debt crisis, also posted the safest return in the past 12 months, even as it fell from a record high to a five-month low in the second half of last year and gold investors led by John Paulson suffered losses.

Goldman Sachs forecasts gold will reach a record this year, and a gauge of future price swings is near a five-month low.

"Economic problems increased globally, and gold emerged as a safe-haven investment," Walter 'Bucky' Hellwig, who helps manage \$17 billion of assets at BB&T Wealth Management in Birmingham, Alabama. "Monetary easing by China and quantitative easing in Europe and the US will help it remain a store of value."

The risk-adjusted return is calculated by dividing total return by volatility, or the degree of daily price-swing variation, giving a measure of income per unit of risk. The returns are not annualized. A higher volatility means the price of an asset can swing dramatically in a short period of time, increasing the potential for unexpected losses compared with a security whose price moves at a steady rate.

Gold's longest rally since at least 1920 in London has attracted investors worldwide seeking protection from some of the most violent market swings in stock markets on record. The Dow Jones Industrial Average posted four consecutive days of 400-point swings last year, the longest streak since data began in 1896.

The S&P 500's average daily price move since its 2011 high in April was 1.8 percentage points, compared with an average of 1.1 percentage points in the five years before Lehman Brothers collapsed in September 2008.

The risks that spurred market volatility last year will keep swaying asset prices and the global economy, Nouriel Roubini, the economist who predicted the 2008 financial crisis, said in a talk at Bloomberg's headquarters in New York on January 19. Rising commodity prices, uncertainty in the Middle East, the spreading European debt crisis, increased frequency of "extreme weather events" and US fiscal issues are

"persistent" problems, he said.

That's good news for havens such as gold. Goldman Sachs said in a January 13 report that futures will advance to \$1,940 an ounce in 12 months. Morgan Stanley forecasts the metal will climb to a record average \$2,175 in 2013, analysts Peter Richardson and Joel Crane said in a January 17 report. Futures for February delivery jumped 2.1% to settle at \$1,700.10 on Thursday on the Comex in New York. That's the highest closing price since December 9. Traders anticipate that gold will gain at a steadier pace again, after last year's correction. The metal's three-month implied volatility, a gauge for future price swings, touched 19.04 on Wednesday, the lowest since early August. The most widely held options contracts give holders the right buy at \$2,000 by June, data from the Comex exchange show.

The ratio of puts per call for the SPDR Gold Trust, the biggest bullion ETF, is near the lowest since October 2008. "People are still very under-invested in gold, and so there is a huge scope of that increasing," said Jochen Hitzfeld, the analyst at UniCredit in Munich who was the most accurate precious-metals forecaster tracked by Bloomberg.

Gold returned 1.1% in the 12 months through January 24 when adjusted for price swings, compared with a 0.8% gain in unleaded gasoline.

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