

Good as gold? – You should talk to Nellie

The Sunday Star Times had a great article a week or so back about the price of gold. It seems that gold's climb is akin to Ed Hillary's summit of Everest – unstoppable. The current value of an ounce of gold at the moment is about USD\$1,050 per ounce – up from USD\$870 in April of this year. Have investors who thought about gold then missed a windfall?



This rise in value as against the US Dollar would be a real enhancement in wealth if the price of gold was the only considered against the US Dollar – but it isn't. Investment options are never that simple so let's look at the numbers.

In April the NZD was worth 59 US cents, and gold was worth USD\$870 a Troy ounce meaning that an ounce of gold was worth NZD\$1,474 then.

Now, early October, the NZD is worth 73 US cents and gold is worth USD\$1,052 a Troy ounce – an increase of about US\$180.

“Good as gold?” said one investor. “Not on your Nellie,” said another.



With the change in exchange rate between the US\$ and the KIWI between April and now, that would make an ounce of gold worth NZD\$1,441 today. Dang! – After trading fees you could be down \$50.

The Trojan Horse of deception is alive and well centuries after Odysseus caused the fall of Troy with a hollow wooden horse. The difference today is that gold is the horse and wealth is its victim.

I can hear the comments that once the Kiwi Dollar and the US Dollar “resume normal transmission” with the Kiwi assuming the value of perhaps US 40 cents (the Kiwi was close to this between March 2001 and March 2002) then those sitting on their gold will indeed assume the robes of King Midas. The ounce of gold bought this week for NZD\$1,441 could be sold for \$2,630 if the NZD/USD rate was closer to 40 cents. Even at 60 cents, the average exchange rate over the last 10 years, the same ounce of gold would be sold for \$1,750.

However, this “normalization of our currency as against the US Dollar may not happen any time soon – it might, but equally it might not.

There a few things that are keeping the NZD/USD at abnormally distorted levels. I will identify three of them;

- New Zealand produces things that the world wants. The fluctuations in the dairy price recently shows that while the global price of a kilogram of milk solids may vary greatly, people still want milk. New Zealand is known as an agricultural producer that produces milk better than most – certainly better than the Americans. We are in demand and if demand is high, then so is the price, which helps to explain the Kiwi's value.



- Those looking to invest in interest bearing accounts do not get as much in the US as they do in New Zealand. This is also keeping our dollar high, as the equivalent of our OCR in the US is close to 0% - again the Kiwi is in demand. An investor can get close to 3% in a government guaranteed investment here – as our two year old son would say . . .”Not bad!”
- Another thing keeping the NZ\$ high against the US\$ is the FUD factor – Fear Uncertainty and Doubt! There is growing noise that the US\$ will soon outlive the role of the global monetary standard. Alternatively, it may be that the Chinese will stop buying US bonds, or worse, flood the market with the billions it already has. Or perhaps there will be a loss of confidence in the US\$ because the US Treasury stopped minting gold and silver coins last week because of “unprecedented demand” – or has it run out of gold and silver to mint into coins?



The number of reasons the NZD will stay high against the USD is only limited by your imagination.

It should also be remembered that the Kiwi's strength has more to do with the US dollar's weakness than an inherent potency of the KIWI. When one compares the KIWI to the Aussie dollar within the same timeframe (April through to today), the difference is negligible – so we cannot beat our collective National Currency Chests and tell the world how wonderful we are.



What I am saying is that an investment decision is never as easy as looking at the numbers and predicting an outcome that is reliant on uncertainty. Neither should an investment decision be based on hindsight and “If only I had done that” – if that was the case, horses would be my game; the winner is always easy to pick looking at the form book after the race.

Neither am I saying that an investment in gold is to be avoided at all costs. Some exposure to gold may well be warranted - provided an investor understands the risks. However, a total investment into gold may mean that an investor ignores the deceptive nature of the Trojan Ounce in the hope of wearing the robes of King Midas – I just hope those robes do not end up belonging to another famous royal – The Emperor . . . in his underpants!

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