

5 questions for Ritesh Jain

HEAD - INVESTMENTS, CANARA ROBECO MUTUAL FUND

Renown investor Jim Rogers believes that the price of gold is due for a short-term correction and is of the opinion that it could be a great entry point. He claimed that he would be very excited as the price of gold retreated substantially but was quick to add that he is not selling any of his holdings. His suggestion: Investors who like the long term prospects of the precious metal should buy at the dips.

In a recent report, Morgan Stanley referred to the rising numbers of those joining the chorus on chanting the end of gold's bull run. However, while it believes that such stresses will continue in 2012, the firm predicted that the "corrective phase" in the gold price will end "when the Federal Reserve adopts a new round of quantitative easing in the H1 2012, weakening the US dollar and reigniting the safe haven trade for gold that is likely to see a renewed and successful challenge to the September 2011 high."

As for a specific gold price target, Morgan Stanley forecasted the yellow metal will reach \$2,200/ounce in 2012. The firm reiterated that its outlook is based on the Fed implementing QE3, which will create "the makings of a renewed upward assault on the recent all-time high" in the price of gold.

Currently, the price of gold is range bound. But what have been the reasons for the rally?

The simple answer - The world is awash in debt accumulated over the last decade which is difficult to pay back at current growth rates. The only way out, and the most difficult, is default. The default can take two forms - either walk away from the debt or increase the quantity of money in system by printing, thereby reducing the value of debt. The world is opting for the second option and that is why gold is going up.



On the one hand, the US is grappling with faltering economic recovery and failure to arrive at a consensus to reduce its deficits. On the other hand, Eurozone is attempting to get rid of the humongous amounts of debt accumulated by its member nations. One way to get out of this crisis is to increase inflation. The other is deflation but will involve widespread economic hardship and stringent austerity measures and the world has learnt from the European example that the masses do not take to this well.

Governments are trying to hold back the forces of deflation principally by expanding the money supply and bailing out failing entities. Whenever the markets try to correct the problem of excessive debt, the governments intervene to postpone the problem.

The 'kicking the can down the road' approach by governments is running out of steam as there is no can to kick now; it has become a 'boulder'! The countries which were referred to as "TOO BIG TO FAIL" have now become "TOO BIG TO BAIL".

So, it's not that gold prices are going up but it is the value of currencies which is going down due to money printing.

Do you see demand for gold as an investment rising?

India and China, the world's largest consumers of gold, have not looked at gold from an investment angle as yet but it is slowly changing. In India, jewellery demand continues to occupy more than 60 per cent of total demand. So the \$1 trillion estimated private gold holdings are mostly in the form of jewellery and thus may not be out in circulation for sale easily. But things are changing. In India, investment demand for gold is just picking up among investors as an inflation hedge. China also recently has stepped up its investment demand.

Gold currently occupies around 1 per cent of total global investment assets. But, as gold investing becomes more mainstream in nature, incremental demand is expected to flow in making the price movements volatile as well. To put things in perspective, during the last bull market in gold in 1980 nearly 20 per cent of global wealth was invested in gold and gold mining companies. It is unthinkable what will happen to gold prices if we were to replicate the 1980 experience.

So its value is most in uncertain times.

Gold is a crisis asset and a time will come where it will be rendered useless once economies globally get back on track.

Can you tell us where you think the price of gold is heading?

Gold prices have come off their September 2011 high of \$1,900/ounce. Though it is currently moving in the \$1,600 - \$1,800/ounce range for a while now, do note that in rupee terms, gold continues to inch towards a new all-time high. In fact in the last three months, gold prices in dollar terms have moved down by almost 5 per cent but the rupee value of gold is up almost 8 per cent. In the last 10 years, gold in rupee terms has delivered higher returns than gold in dollar terms.



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Do you think there is still money to be made?

Gold has been in a silent bull market in the last 12 years and is entering its final mania stage. There are three stages to a bull run. The last stage of the bull market generally is the most profitable. The first stage of this run began in the early 2000s. Leading up to 2002, the stock market crashed, US debt piled up to all time highs and the trade deficit swelled to epic proportions. That's when few shrewd investors began to lose faith in the US dollar and bought gold. Not many

people bought gold in 2001. The mainstream never catches an idea in its earliest stages. Noticeable buying didn't occur in the gold market until late 2004 and early 2005 - when the second stage of the gold rally began. I believe that we are still around three to four years away from the end of the bull market.

The inflation adjusted gold price of 1980's \$850/ounce close translates to around \$3,000 in today's value. With gold prices trading at around \$1,600/ ounce, we are only halfway through towards touching its all-time highs. As for retail investors, it is wisely advocated by investment professionals that investors hold at least 5-10 per cent of their portfolios in precious metals with the objective of diversification. With major Western nations now defaulting on their debts, it is important that investors allocate to asset classes which do not depend on the solvency of a bank or even government! ■