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Economics: Investing in gold for Egyptians

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Investment in gold is a safe haven for protecting the wealth value, especially during times of global financial crises, for several reasons, including:

1- The limited quantities of gold: The total quantities of gold that have been produced over the life of mankind are no more than 170 thousand tons. About 2500 tons of gold are extracted annually over the world; and that more than half the production has been extracted over the past 100 years. Due to the limited supply, the price of gold is heavily affected by demand which is always escalating, especially in light of the recent crises. This makes gold a safe haven as a store of 'value' throughout history.

2- The purchasing value of banknotes is constantly eroding, as central banks continue to print banknotes, which reduces their value and lead to inflation.

3- The growth rate of gold value is higher than that of the stock exchange shares. While gold has achieved a growth rate of over 300%, the stock indices on the international stock exchanges have reached about 80% in some periods.

Forms of investment in gold

There are many ways to invest in gold. Different products can be used to achieve a variety of investment objectives. Investors should consider the options available in their market, the form of investment that is appropriate to their circumstances, and the nature of professional advice they will require. Deciding how to invest in gold involves reviewing the various gold-related investment products, all of which have different risk and return profiles, liquidity characteristics and fees.

The forms of investment in gold vary according to the investor's purpose, as follows:

A) Gold Bullion: Buying gold bullion, which is the most common form of investing in gold, is now cheaper and easier than ever before. And it's still, by a long way the safest way to own gold. Gold alloys are more suitable for small investors. Although it is greatly difficult to keep large quantities of gold alloys, however it is the most perfect way to keep the value of money.

B) Investment Funds: The most common way to invest in gold indirectly is through an Exchange Traded Fund (ETF) such as the SPDR Gold Shares (GLD). Physically-backed gold exchange traded funds (ETFs), exchange traded commodities (ETCs) and similar funds account for approximately one-third of investment gold demand. These funds were first launched in 2003 and, as of March 2016, they collectively hold 2,300 tonnes of physical gold on behalf of investors around the world. Gold investment funds represent a more flexible option. This gold investment form suits the medium and large gold investments.

C) The acquisition of gold coins: The purchase of gold coins is one of the options available for small investors. Evaluation of gold coins depends on the technical value or rarity, in addition to their weight and type. They are often sold at a higher price than the gold market. It is also suitable for collectors of artifacts.

D) Exchange contracts in gold: These contracts are often used by central banks to provide liquidity from their gold reserves.

F) Investment in paper gold: Paper gold is an asset that reflects the price of gold while not actually being gold itself; it’s not backed by real metal, so it’s considered to be only on paper. It is one of the most effective and economical ways to buy gold in an intangible way as shares in gold calculated in the form of ounces or grams. There is often a ratio between the paper gold and the material gold.

G) Gold deposit certificates: They are certificates issued as an alternative to the actual gold. They allow the investor to buy or sell gold at its specified daily price without the need to buy or store gold. The gold deposit certificates are issued in multiple categories, and are recoverable in cash or in gold bullion bars.

H) Buying gold mining stocks: Investors can invest in shares of gold mining companies. Gold mining company stocks may correlate with the gold price. However, the growth and return in the stock depend on the expected future earnings of the company, not just on the value of gold.

Sawiris puts half his net worth into gold

Bloomberg has reported that monitoring warning signs ahead for markets, Egyptian billionaire Naguib Sawiris has taken action by putting half of his $5.7 billion net worth into gold. Sawiris said in an interview early May that he believes gold prices will rally further, reaching $1,800 per ounce from just above $1,300 now, while "overvalued" stock markets crash. "In the end you have China and they will not stop consuming. And people also tend to go to gold during crises and we are full of crises right now," Sawiris said at his office in Cairo overlooking the Nile. "Look at the Middle East and the rest of the world and Mr. Trump doesn't help."

Risks of investment in gold

It is important to remember that gold should never be used as a market timing tool or as the sole vehicle for all of your savings. The price of gold can have dramatic turns and the long-term average return for gold as an investment trends around 3.00%, which is significantly less than that of an average S&P 500 stock fund. Gold can be a good diversification tool and an appropriate amount for most investor portfolios is around 5%.

Although investment in gold is still an appropriate means for those who have wealth and want to reduce the risk of investment and store the value of what has a hedge against the global central banks excessive printing of banknotes as well as hedging the effects of inflation, but investment in gold is not without some risks. However, investment in gold is less dangerous for those who can follow gold market indicators and the effect of global events on money and gold markets to take the appropriate decision without delay.