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GOLD COINS: Worth another look

by Stafford Thomas, 18 December 2014, 07:50


Hilton Davies. Picture: HETTY ZANTMAN

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Investors have shunned gold coins since the gold price ended its 12-year bull run in August 2011 at US$1900/oz and began its 40% fall.

Hilton Davies, CE of SA Bullion Management, believes a turning point has been reached where gold coins again deserve consideration.

"I did not push gold coins when the gold price was running," says Davies. "I like promoting gold when I see a good entry level and I want South Africans to start buying now. Next year we will start advertising for the first time."

Gold, now at around $1 225/oz, has a strong support base between $1 200 and $1 250, says Davies. Underpinning the base is the average cost of gold production, which, globally, is well over $1 200/oz, he says. "This must have a big negative impact on future gold exploration and production."

Though the gold price touched a low of just below $1 200/oz in November, Daniel Sachs of Investec Asset Management agrees that it has found "massive support" at that level. It is notable that the gold price has been resilient in the face of falling commodity prices in general, especially oil, he says.

But views on gold are always polarised in the extreme. No more so than at Bank of America Merrill Lynch (BoAML). The US investment giant's chief investment strategist, Michael Hartnett, believes gold could slump below $1000 in 2015, a move he feels would coincide with the peak in the US equity market.

Taking a very different view, BoAML's head of global technical strategy, MacNeil Curry, believes gold is at the start of a medium-term bull trend.

But for SA investors what really counts is the rand gold price, which, at around R14 000/oz, has risen 20% since June 2013, a period during which the rand fell by a third against the dollar. "Gold [in rand] has played its role as a store of value," says Alan Demby, CE of the SA Gold Coin Exchange (GCE).

Indeed, the rand gold price has not been a bad long-term store of value, its 720% rise since 1999 comparing well with the JSE all share index's 800% rise over the 15-year period.

"I believe having up to 15% of your portfolio in gold is now a good idea," says Demby, who points to the added economic and political uncertainty overhanging SA. "You buy insurance to protect yourself against uncertainty. It also applies to owning gold."

"Our clients view gold as a currency and part of their long-term portfolio diversification strategy," says Davies. Gold coins, he advises, should make up about 5% of a portfolio.

For retail investors who share Davies' and Demby's pro-gold coin stance, a number of avenues are open.

For those who like to see and feel their Krugerrands, buying through dealers such as GCE is the answer.

SA Bullion Management offers another option. "Our clients' Krugerrands are held in safe custody under their names in the Rand Refinery vault in Germiston," says Davies.

Another option, a world first, hit the market in November when RMB launched legal-tender gold coin custodial certificates. Listed on the exchange traded fund (ETF) segment of the JSE, the certificates are backed by physical Krugerrands.

This sets the RMB offering apart from the largest JSE gold ETF, Absa's NewGold. Though NewGold is also backed by physical gold, it is in the form of bullion held in London and only a registered gold dealer would be legally permitted to redeem an investment in physical gold.

Because Krugerrands are legal tender, the RMB product gives investors the option of receiving coins when they redeem their certificates. There is one downside: investors have to be in it for the long term.

Storage fees for 10 years are charged upfront at the time of investment. On the upside, there are no annual management fees.

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