THE SCANNER

MULTI-ACT
Built by investors for investors

Special Dhanteras Edition

Golden Opportunities: Elevating Portfolios with Real Assets

A robust long-term portfolio needs to be well-diversified and spread across multiple asset classes and investment types that add unique value to the portfolio and serve diversified goals. Financial assets are intangible and offer a contractual right or ownership claim to the holder of the contract. Real assets, on the other hand, are tangible and derive their value from their own physical attributes. Further, real assets have the potential to add differentiated value to the investment portfolio. They act as a good hedge against inflation, offer the potential for competitive returns, and help in portfolio diversification due to low correlation with stocks and bonds. Thus, they help in providing stability, limiting overall portfolio losses, and potentially improving portfolio's risk adjusted returns.

Metals Leading the Way

Among real assets, metals—precious and industrial—stand out for their enduring value. Precious metals such as gold and industrial use precious metals like silver, platinum, and palladium offer strong potential to deliver lasting real value.

Gold

The yellow metal is treated as a universal currency & store of value as well as it acts as an excellent substitute for cash - a time-honoured safeguard against inflation and deflation alike. Further, due to its low correlation with equities and bonds, gold is also an excellent portfolio diversifier, mitigating the impact of financial losses on the investment portfolio.

Silver

In addition to being a part of jewellery, silver has strong industrial usage as well. It is used in Electric Vehicles (EVs), solar panels, smartphones, bearings, electronics, etc. Considering its linkage to both traditional and new-age industries, the demand for silver is expected to remain strong. However, it is important to recognise that silver prices are significantly influenced by economic activity and can thus be fairly volatile/cyclical.

Platinum and Palladium

These PGM suite metals have gained traction due to demand from the automotive industry and the hydrogen economy (likely in future). While both metals are widely used in catalytic converters for internal combustion engines (ICEs), Platinum, known for stability in fuel cells, is likely to find use in hydrogen-based Fuel Cell Electric Vehicles (FCEV). Despite the shift towards EVs, demand from the auto industry is expected to persist in the near term.

Overall, real assets like gold, silver, platinum, and palladium can add significant value to investment portfolios both in the short-term and the long-term. While exposure to gold serves a strategic, long-term insurance, exposure to platinum and palladium offers more tactical, cyclical value. However, they are not without risks, and investors should take exposure herein based on their own risk-return profile and asset allocation strategy.

In charts

Long term trend line charts suggest that gold and silver prices are already in robust upward momentum while platinum and palladium are interestingly poised from a contrarian perspective.

Source: Multi-Act Quant Desk

Exhibit: MCXGOLD Commodity price from 28 June 1974 to 30 Aug 2024

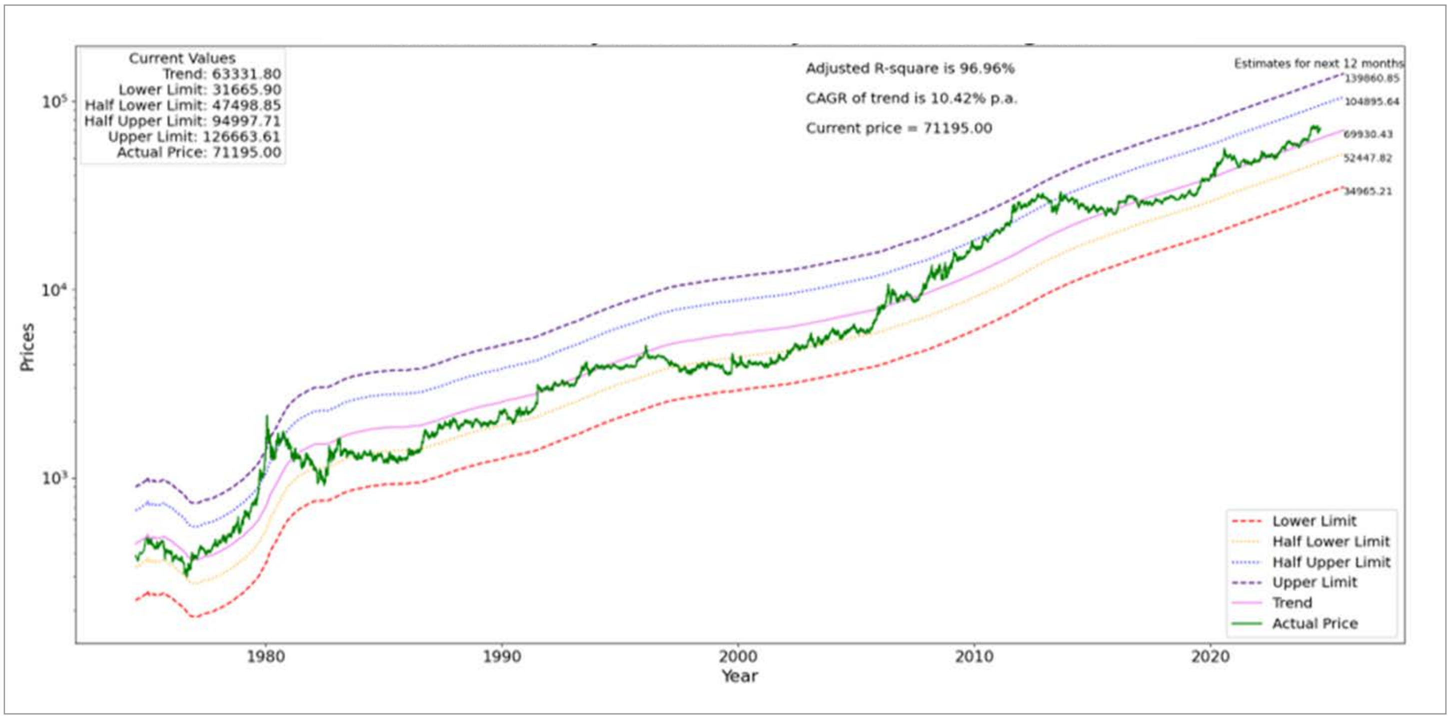


Exhibit: MCX Silver Commodity price (INR/Kg) from 1973 to 29 Aug 2024

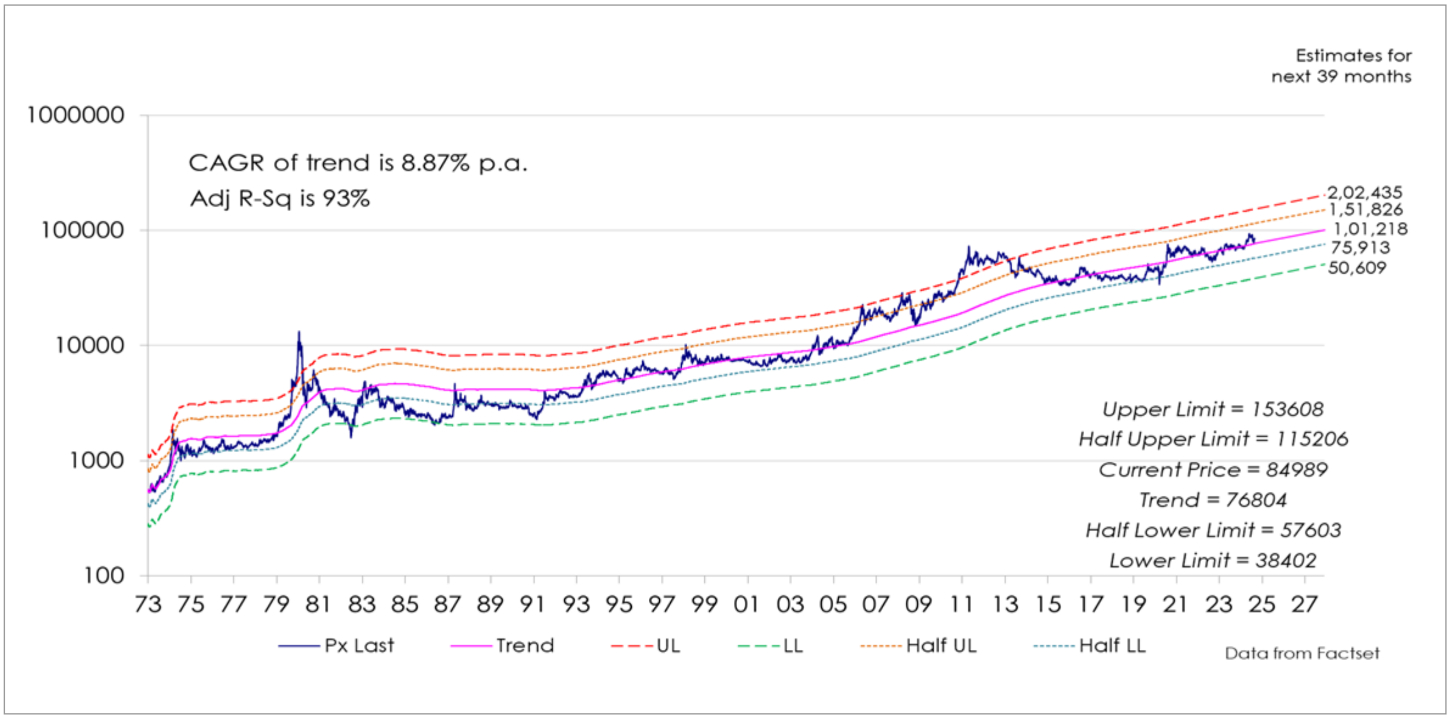


Exhibit: Palladium NYMEX near term price from 1977 to 18 July 2024

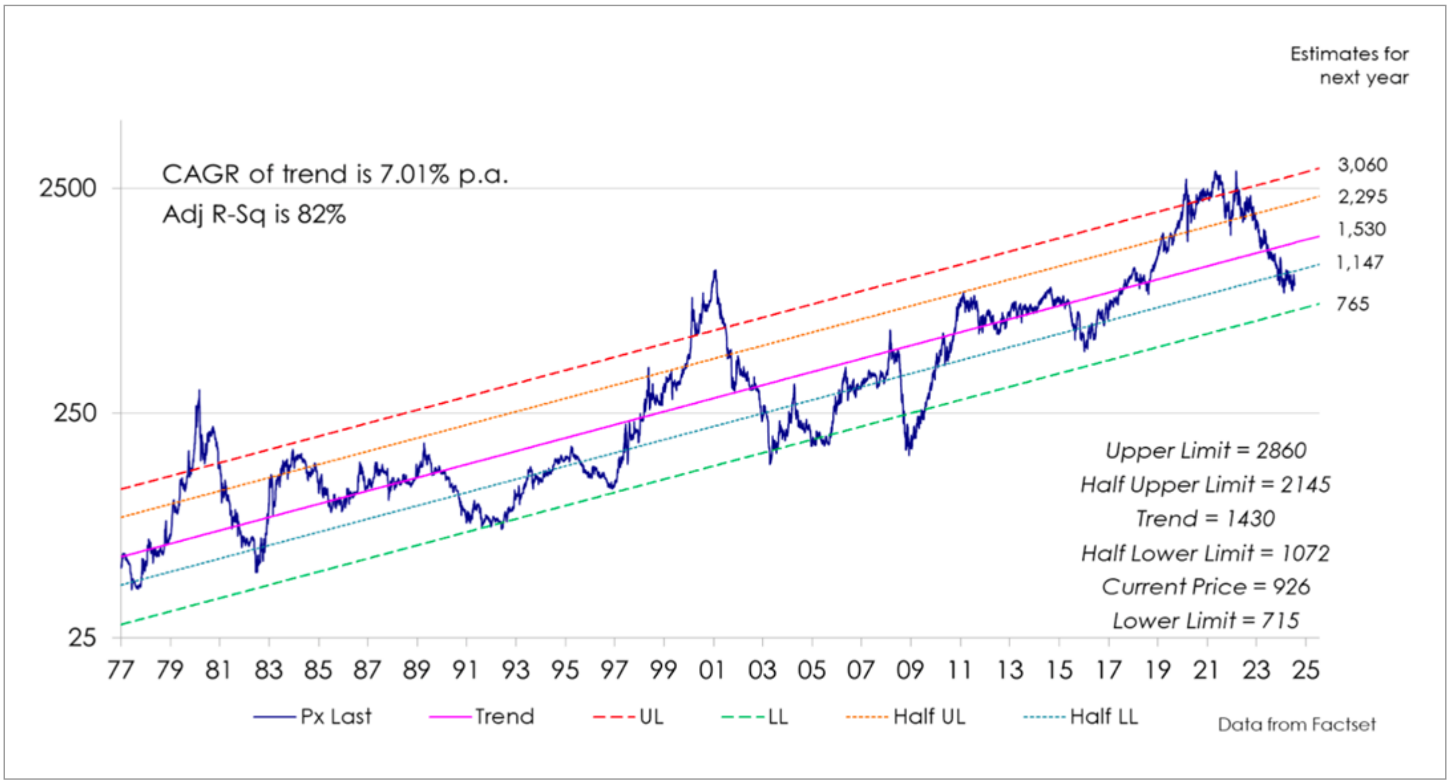
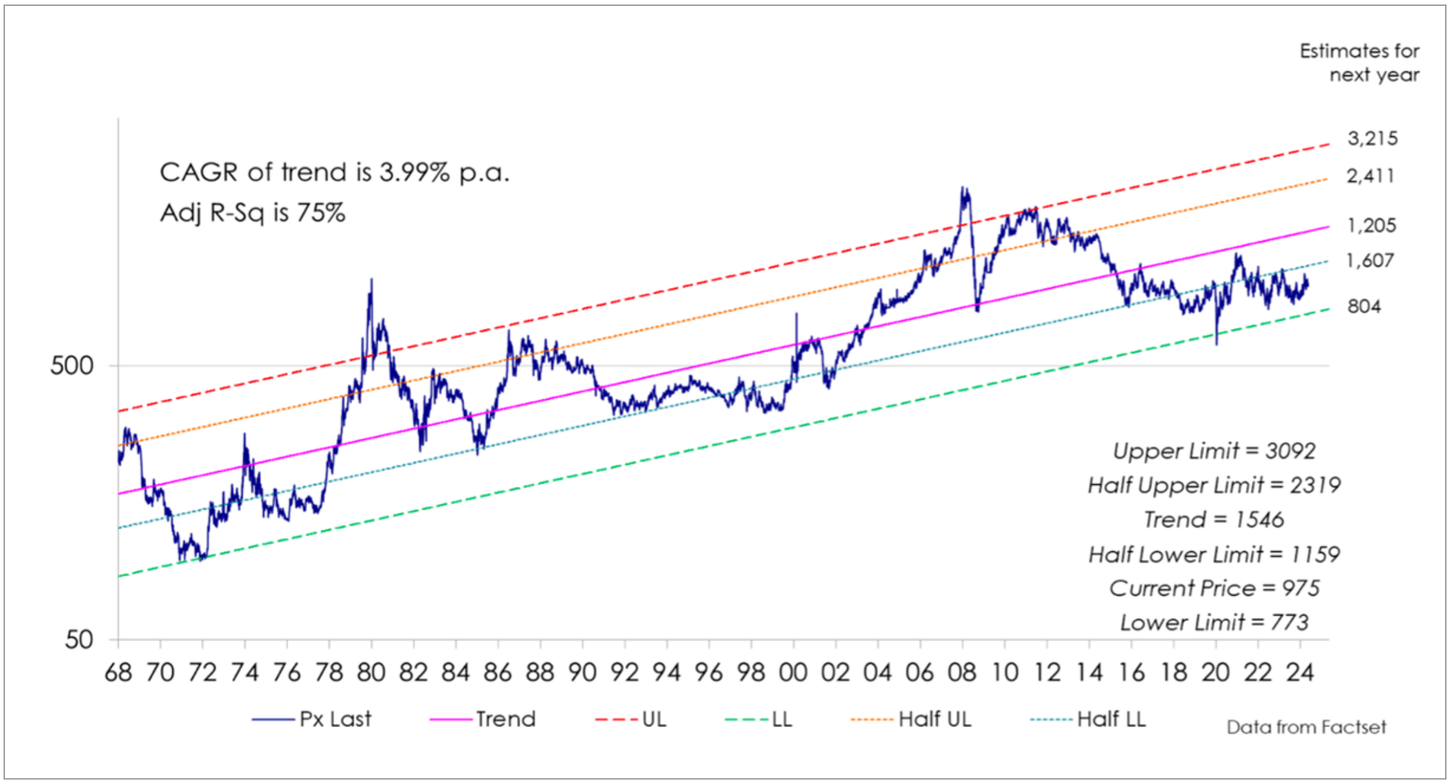
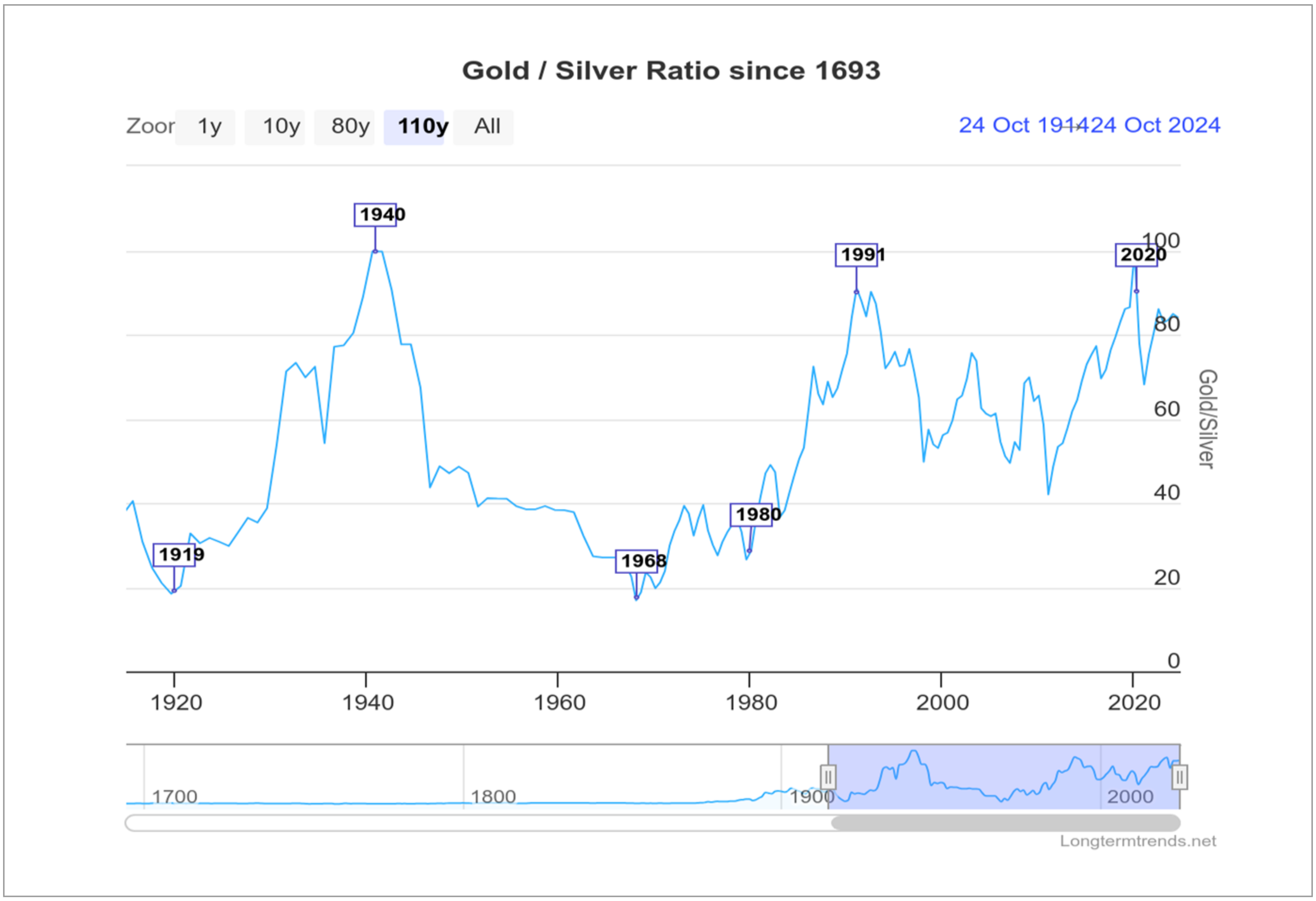


Exhibit: Platinum NYMEX near term price from 1968 to 18 July 2024



Gold Silver Chart

Typically, gold-silver ratio above 90 levels triggers a relative play towards silver (from a mean reversion perspective). As can be seen below, owing to silver's recent rally/outperformance, the ratio has already declined to near 80 levels.



Source: https://www.longtermtrends.net/gold-silver-ratio/

Q&A

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How can one strategically position exposure to these metals?

Gold, due to its proposition as a store of value and stability, should form the portfolio's core exposure to precious metals. Silver, with its commercial and industrial relevance, is a relative play against gold.

Investors with a contrarian outlook and a medium term perspective may consider initiating moderate exposure currently to platinum and palladium within their portfolio fitment of 'Real Assets/Natural Resources', with a view to add later when the cycle/commodity prices start reflecting buoyancy.

What are the ways to gain exposure to these precious and industrial use precious metals?

You can gain exposure to these metals through any of the below mentioned avenues:

- **Direct commodity/bullion:** Where possible, subject to purity, storage, safety, logistics aspects.
- **Sovereign gold bonds (SGBs):** When it comes to exposure to gold for Indian investors, SGBs offer a compelling investment route, offering capital appreciation linked to gold prices and additional interest.
- **Gold and Silver ETFs** (within investors' local domain) are also viable investment options. Gold Mining stocks are also good investment options (subject to investor access).
- **For PGM suite metals** (Platinum and Palladium), Bullion-backed funds like iShares Physical Platinum ETC (SPLT) or WisdomTree Physical Palladium ETC (ISIN: JE00B1VS3002).
- **Direct equity:** Though some PGM miners are listed, factors like geography and lower market caps may limit accessibility.

Investors should consider that some investment avenues might vary by availability and access. Recent budget changes have also eased the taxation impact on overseas ETFs (for holdings beyond two years). Read here and here.

What are some risks associated with investing in platinum and palladium?

Some of the risks investors should be cognisant about while investing in platinum and palladium include:

- **Economic Cyclicality:** Recession or deflation may reduce demand, particularly in the auto sector.
- **Shift to Battery-Powered EVs**: The rise of fully battery-powered EVs could gradually lessen demand from the ICE and hybrid vehicle segments.
- **Limited Liquidity:** Lower production, stock limitations, and concentrated demand/supply make these metals less ideal as stores of value, especially compared to gold and silver.
- **Geopolitical Risks:** Dependency on high-risk regions or low-price supplies from regions like Russia introduces volatility.

In the short-term, when it comes to allocation to precious metals, platinum-palladium jostles for space with other metals like gold and silver. How should allocators address this?

One can review the platinum to gold and the platinum to silver ratios to evaluate short-term allocations. Currently, due to gold's recent rally, the ratio is heavily skewed towards gold. This is being mirrored in silver as well. From that perspective, mean reversion can be a contrarian proposition for platinum and palladium. However, it is important to be cognisant of commodity specific risk factors and issues that could impact this ratio.

While gold exposure is a permanent feature in our advisory, we have been advising investments into platinum and palladium to our clients since the middle of this year. We had also found opportunistic play in silver a few months back when the gold-silver ratio was upward of 90 levels.

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