MY BEST INVESTMENT

Going gangbusters on gold

A one kilogram gold bar is seen here in a store in Dubai.

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The Investment One of our best investments over the past few years has been the BMG BullionFund, a Canadian fund that holds investment-grade bars of gold, silver and platinum. We made a conscious decision back in the early 2000s to move out of financial assets into hard assets. We were looking for everything from inflation hedges to a store of monetary value and were concerned about the U.S. dollar relative to our Canadian dollar. We didn't feel we would get that in currencies and the like, so we went into the hardest of all assets, that being precious metals.

[Unlike typical gold funds] the BMG BullionFund is always priced at its net asset value (NAV), and no stock market pressures affect its liquidity or price. We are also attracted to the diversity that this fund offers with the inclusion of silver and platinum. These other precious metals offer an attractive diversity, as silver and platinum have more commodity-like qualities than gold does, performing well when the economy performs well. The gold acts as insurance against monetary decline.

The Return BMG BullionFund has a five-year annual compounded performance of 11.6 per cent. Gold alone, from 2002 till now, just on a straight-line basis, went from $348 (U.S.) to $1,096 at the end of 2009. That's up more than 214 per cent. That's the unique thing about gold - it's the only commodity that's up for nine years running now. That's why you get many commentators saying it's a bubble, it's about to burst. We don't think they're right, we think that there's still greater problems to be solved south of the border and in Europe, and with the world's debt loads.

When the global economy turns the corner, and countries are able to start paying back some of their debts and their deficits start to diminish, that's when we'll be starting to exit out of gold and be happily investing in common stocks. But not

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until that happens.

Although this fund has not quite matched the return of gold itself over the past five years, holding actual physical precious metals has its costs. The same way I don't begrudge paying fire insurance on my home, I don't begrudge paying these holding costs.

Stocks were crushed in the credit crisis of 2008, but this fund only took a small hit of minus 4.1 per cent. Our clients have been protected against serious financial meltdowns by holding actual physical metal. Other pseudo-gold investments may have performed slightly better over these years, but had something even more terrible happened, our clients would have been protected, while holders of other precious metals funds may have been exposed to counterparties on the actual ownership of their gold. Our clients have been and continue to be protected, while enjoying excellent returns.

We've been steadily putting money into BullionFund over the years. Currently, it makes up a minority portion of our clients' portfolios, but it's a growing number.

The Takeaway We've seen other precious metals funds come into the market over the past few years, and although we've looked at them, they all seem to want to try to outmanage the underlying assets with currency hedges and other non-physical-metal gimmickry, such as gold certificates, or investments in closed-end funds. This investment acts the most like its underlying assets of all of the precious metals funds, and the bullion is all there in the vault, unencumbered, and not dependent on anyone's performance.

Regarding the components of the BullionFund, on the platinum side, demand is far outstripping supply. Platinum is one of the hardest metals to mine. That's why it's trading above $1,500 an ounce - it's so difficult to get to the surface. But it's used in catalytic converters in automobiles, and right now, China's auto demand is surpassing that of the U.S. So the demand is there.

And with gold, there's an argument right now - just like peak oil - that peak gold might have been surpassed in the early 2000s. South Africa used to produce more than one million ounces of gold a year, and now because their mines have been overmined and the grades and quality are down, they produce less than a quarter of that. And Canada only has four major gold mines, so there's a real supply constraint. So one can see that, other than just an economic store of value, the BullionFund has many things working for it.

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