



## Why the End of QE Makes Now the Time to Invest in Gold

### Description

When markets are wracked by volatility and the global macro-environment is increasingly uncertain, gold shapes up as an intelligent investment. Now that it's slipped below \$1,200 per ounce, it's appearing even more attractive. That plunge in value can be credited to the Fed's upbeat statements regarding the state of the U.S. economy and its decision to formally end quantitative easing.

While I am certainly no gold bug, I believe the current circumstances warrant incorporating gold into your portfolio. This is because it is an effective means of hedging against risk, protecting your portfolio against any further bad economic weather.

Let me explain why.

#### **Global macroeconomic instability**

The Fed may have recently announced the end of QE, but there are signs all is not well with the global economy. There are even concerns among economists that QE has sown the seeds for the next global economic crisis.

Former Fed Chairman Alan Greenspan recently claimed QE never really worked. He believes it only pushed up asset prices through cheaper borrowing costs without creating any sustained benefit for the real economy.

This accords with the some views that QE created a fragile asset bubble, which is dependent on low borrowing costs if it is not to collapse. Now with the eurozone on the cusp of falling into a triple-dip recession along with more bad economic data coming out of China, this may not be far from the truth.

These issues are directly responsible for the heightened volatility in markets. They are also creating fear among analysts and economists that another financial crisis set to emerge.

#### **Gold's value is negatively correlated to growth assets**

What makes gold such an efficient hedge is that its value is negatively correlated to growth assets like

stocks. As a result, in those economic environments where risk assets are performing poorly, like we are seeing now, gold's value over time will appreciate.

### Increased central bank buying

Global central banks since the global financial crisis have increased their gold buying. This further supports the likelihood of a rally gold as they purchase ever increasing quantities. According to estimates from the World Gold Council, global central banks added 242 tons of gold in the first of 2014 and are expected to add a total of 500 tons for the full year.

Key among recent central bank buyers was Russia. The country made its largest gold acquisition totaling US\$1.5 billion in September this year. This is its largest gold purchase since defaulting on its internal debt in 1998.

I expect to see further buying from central bank with global economic volatility and slowing global growth fanning fears of another financial crisis. This increasing demand from central banks will further support a rebound in the price of gold.

### Institutional investors have made some big bets on a rally in gold

Another telling indicator of an impending rally is the big bets Wall Street is making on gold. This has seen some of the Street's biggest names invest heavily in precious metal miners including **Goldcorp Inc.** (TSX: G)(NYSE: GG), **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AUJ](#)), **Agnico Eagle Mines Ltd.** ([TSX: AEM](#))([NYSE: AEM](#)) and **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW).

Even Mr Greenspan joined the fray when he stated that with the failure of QE, gold is the best place to put your money because of its value as a currency outside of the policies conducted by governments.

I believe the best way to gain exposure to gold is to invest in gold miners with low operating costs, solid balance sheets, and high-quality assets. By investing in gold miners, precious metal streamers investors gain leveraged exposure to the price of gold, maximising their bang for their buck.

The best plays are those companies that are also popular among Wall Street, Goldcorp, Yamana, Agnico, and Silver Wheaton. This is because with their low operating costs, any rebound in the price of gold — no matter how small — will translate into a significant gain in earnings.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:AUY (Yamana Gold)
3. TSX:AEM (Agnico Eagle Mines Limited)
4. TSX:WPM (Wheaton Precious Metals Corp.)
5. TSX:YRI (Yamana Gold)

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**Date**

2025/07/03

**Date Created**

2014/10/31

**Author**

mattsmith

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