



Comments on Gold
April 16, 2013

Over the last two trading days, gold had sold off more than 13% to a two year low. There are many explanations and theories for this abnormal activity, though no single factor has been identified as the root cause. The sell-off began on Friday morning as gold passed through the technically important 1520 level, which had provided support since 2011. Once through that level, stop orders were triggered in massive quantities causing the price to fall over a 2 day period to its closing level of 1360.60. Explanations include the disappointing growth figures out of China as well as a disappointing US industrial production report (decreased demand for commodities), and news that Cyprus will be forced to sell a large portion of its gold reserves. In addition, analysts at Goldman Sachs, Deutsche Bank, and Societe Generale (among others) have cut their forecasts for the price of gold in recent days.

We added a 3% allocation to gold in the LAMP portfolios in March of last year to hedge against the uncertainty surrounding the fiscal cliff negotiations in Washington, the European debt crisis, and inflation, as well as to add diversification as an alternative investment. While the fiscal cliff and, later, sequester came and went with minimal impact on the markets, we still view the May 17th debt ceiling deadline as a potential cause for concern and thus continue to hold gold. Additionally, the historically unprecedented infusion of cash into the economy, particularly from the Fed's \$85 billion per month open-ended asset purchase program and the massive QE from Japan and ECB, will eventually have a destabilizing effect on currencies and lead to inflation. It is for these reasons that we continue to believe that our rationale for holding gold remains intact despite current market movements. We do not want to emotionally sell the position into a panicked and irrational market. Although we continue to believe in the long term fundamentals for gold remain, we are closely monitoring gold's price activity and may consider selling the position if the market indicates a sustained downtrend in the price of the precious metal.

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