Gold plunges to 33 year low

Island Investor

By Don Freeman

THE PAST month has not been kind to anyone who has bought gold recently. With a nearly 9% loss since its January peak, and nearly 14% from last September's, of late, the precious metal has been anything but.

Last week it had its largest one-day percentage decline since February 28, 1983. For the past 20 months, the price of gold has failed to make a new high since peaking in 2011. With all the hype surrounding gold, gold ATMs (yes they have ATMs to buy gold directly), and my phone ringing at least five times a month from people wanting to buy gold, it appears to have topped and the neckline is now broken. There has been a mania as gold climbed higher and higher. The worst part for holders of gold is that it doesn't even pay a dividend.

I consider gold to be a 'fear trade'. When the investing herd or crowd is scared they buy the shiny stuff because they feel better, since it is tangible. Look at the chart above and notice the price of gold took off on a 10-year spurt right after the dot-com bubble burst in the year 2000 (Fear 1), then when the 9-11 terror attacks occurred (Fear 2). When hurricane Katrina hit the US (Fear 3) and the Great Recession in 2008 (Fear 4), gold climbed the 'fear index'. Note that during this 11-year run, the US stock market went sideways and consolidated its gains after a strong run from 1975 to 2000.

In 2010, I taught a series of investment courses at Khun Woody's Sandwich Shoppe in Phuket. For two years now I have been telling clients and people to avoid all gold exposure. All the while, I've been saying that gold had peaked and investors need to increase their stock exposure. The bull market in stocks began in 2008 and we are just now entering a period of increased optimism. This will bring in a period of good feelings where investors return to the stock market. They'll begin to buy and move cash out of the bomb shelter (gold and cash) and into funds and take risks. The 'fear' or gold trade is now dead and a great bull run in stocks has begun.

Gold price fluctuation is nothing more than a graph of fear. When investors begin to feel good about investing in stocks and the economy in general this 'fear index' will decline, as we are now seeing since 2011. Gold investors are panicking and now we have seen a drop below critical support levels. I expect gold to lag equities for many years to come and global stocks to move much higher.

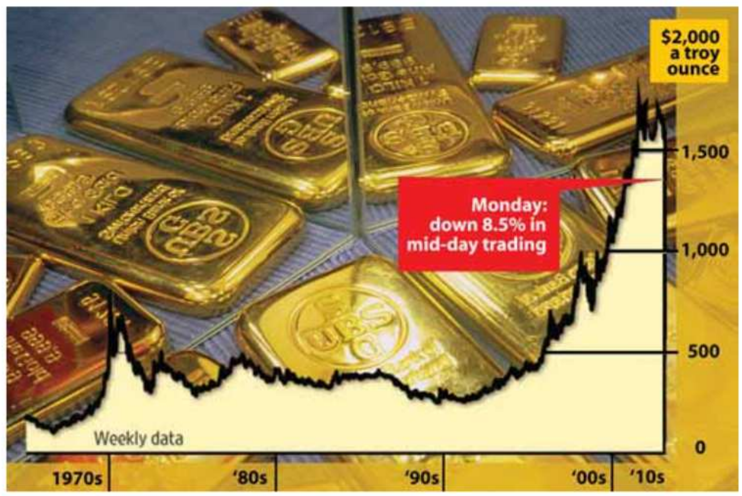
When the bull market in stocks began in 1980, stocks rose for 20 years as we climbed the excitement, thrill and euphoria stages. During this same time the price of gold went sideways and did nothing for 20 years. I expect a similar hibernation for gold now.

A large reason for the recent bull run in gold prices had been the development of the ETF for gold. It allowed investors to buy gold like a stock. As money went into this ETF, more and more gold was bought, pushing up the price. Now that many of these investors have been burned with their gold holdings, look for gold to continue to sell off as investors in these ETFs unload their gold holdings.

With the clear break down last week, gold is not a wise investment for your portfolio. Stock, funds and equities should be bought now. The US stock market is now on the verge of breaking out to new highs after consolidating for 12 long years. I will be an aggressive buyer of US and global stocks and funds in the weeks ahead. The decline in gold is a welcome sign that there is less global fear.

There is increased optimism about global economies and that is good for stocks. Any rally in the price of gold is to be sold into. I suggest anyone holding gold to exit now before prices go much lower. If you would like to discuss the gold market and the outlook for stocks, feel free to give me a call, email or hit me up on Skype. I can suggest ways to exit your gold and transition into stocks and collect dividends to live on here in Thailand.

PONDERING: The sharp drop in the gold price has led many to reevaluate their investment in the precious metal. Photo: Lee Haywood



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TBank loan's boom

THANACHART Bank's lending to small and medium-sized enterprises this year has a good chance of exceeding the target of 90 billion baht. Lending in the first four months of 2013 is already 84bn baht against year's target of 90 bn baht.

This is thanks to its business plan for the remaining months of the year to finance university student apartments and aggressively pursue auto-related business.

After targeting outstanding SME loans of 90bn baht for the entire year, the figure in the first four months alone reached 84bn baht, said Jiratchayuth Amyongka, head of SME banking. TBank adjusted its SME portfolio last year by moving some customers to corporate loans to set a strategy to advance the SME segment. He said the board had given the green light to the SME banking division to provide loans for university-student apartments in the country's education hubs.

TBank conducted a study in this field and found that the supply of student apartments was insufficient, he said. The number of new university students increases by 10 per cent a year, and new accommodation for them is not keeping pace.

"We will provide loans to apartment developers based in education hubs. In the northern region, potential locations are around Chiang Mai University and Payap University. In the North-east, apartments near Khon Kaen University are the focus," he said.

The lending will be divided into two types. First is project financing to apartment developers, for which sales teams from TBank in Bangkok will help teams in provincial branches. Second is working capital, for which provincial sales teams can approve loans themselves through the scorecard system. Working-capital loans will provide a credit line of up to 10mn baht, while the figure will be above10mn baht for project financing; for which apartment developers will require annual turnover of 600mn baht.

Jiratchayuth said the bank would add two business-centre branches to the five currently operating to support lending to SMEs in the provinces.

Another key strategy this year is auto-related business, which also will help strengthen SME lending. TBank is already the leader in installment lending, and other auto-related businesses such as garages will be the focus as well. He said such businesses had good potential to service vehicles purchased under last year's first-car tax-break scheme.

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