The Impact of Investing in Gold for the US Investors

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Abstract

Despite abundant studies, the fundamentals behind gold price developments and its characteristics in diversified portfolios have not been fully identified. Gold investors have often been misled by analysts’ forecasts because the underlying fundamentals behind value mechanism are not well-defined. While some analysts blame on the political uncertainties, others simply admit that the gold price characteristics are too complex for a reliable projection.

As gold price has been through a substantial hike and later, a significant fall during 2009 to 2015, many previous theories about gold price properties are undermined, paving the need for new researches. In this study, the author explores the factors that influence gold price by analysing the relation to oil price, bonds, equities, interest rate, inflation and USD exchange rate. Furthermore, Gold’s role as hedge, safe haven and diversifier to the US equities is covered. The author also studied the adequate proportion of gold in a three-asset portfolio to explore the optimum ratio of the assets. Moreover, the effect of market ‘fear factor’ by analysing the relation of gold volatility index to gold price was examined.

The finding was that the USD exchange rate was negatively correlated to gold and bonds were similarly negatively correlated to gold since 2009. Gold acted as safe haven to the US equity market, S&P 500, during the market turmoil but in a longer period, gold is uncorrelated to S&P 500 and can function as a diversifier in the portfolio. Another outcome of this study was that a high level of gold volatility index, which is based on investors’ ‘fear factor’, influences the way gold price emerges in the future.

**Key words:** Gold; Bonds, S&P 500, Hedge; Safe Haven; Diversifier, Fear factor and Portfolio optimisation.
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