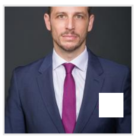
INVESTMENTS

Why Gold is a Shining Beacon for Investors during the Darkness of the Global Pandemic



Joshua Rotbart of J. Rotbart & Co.
Jul 9, 2020

Joshua Rotbart, Founder and Managing Partner of precious metals firm J. Rotbart & Co., is passionate about gold, real gold. He knows how throughout history, gold has proven its sustained value time and again, and how the longer someone keeps it, the more it will appreciate. For the past five years, since founding his business, he has been enthusiastically advising the wealth management community in Asia to stock up on gold, and he has been proven correct, as the price has been rising robustly since 2015. Even before the global Covid-19 pandemic, he had been spreading the word of how the stars were aligned for gold, and why Asia's HNWIs should keep a significant portion of their wealth in physical gold. And he had been telling the private banking and asset management community in the region how working with his firm is an ideal way to leverage their HNW and UHNW client relationships. Hubbis 'met' with Rotbart by video link to his home office in Hong Kong recently to hear more about how the pandemic, as awful as it is, has been proving the gold bugs correct, and why, in a world of exploding government debt, imploding interest rates and collapsing economic fortunes, gold is set to retain its shine for a good long time to come.

Rotbart clearly has an unwavering belief in the value of holding physical gold. He is passionate about gold as it is non-correlated to mainstream financial assets, it is a hedge against inflation and currency depreciation, it can easily be bought, stored and insured outside the global financial system, it is highly liquid and, above all else, it has stood the test of the past several millennia as both a store and an enhancer of value.

Rotbart is the founder and managing partner of J. Rotbart & Co., a Hong Kong-based bullion house providing solutions for high net worth individuals and families, asset management firms and private banks who wish to procure, store and transport physical precious metals and other tangible assets worldwide. He and his team have traded, transported and managed bullion worth over USD1 billion, and Rotbart is highly respected in the bullion industry, speaking often on TV and in print media, including a regular commentary in the South China Morning Post and other journals. The firm now has offices in Hong Kong, Singapore and Manila.

Worse to come?

He cites Nouriel Roubini, a well-known and often-quoted financial expert and commentator who rose to great prominence in the global financial crisis of 2008 onwards. “Roubini,” he reports, “has since this pandemic struck said that as a result of this crisis, the best economic outcome that anyone can hope for is a recession deeper than that following the 2008 financial crisis, and that given the flailing policy response so far, the chances of a far worse outcome have been increasing by the day.”

But Rotbart says this is all positive for gold, which had already been back in favour with investors around the world since the onset of the GFC in 2008, and even with the central banks that were before largely sellers.

But better for gold?

“As well as being non-correlated to the financial markets,” he explains, “gold is a proven store of value over millennia, a hedge against dollar weakness and inflation, even disinflation, and an ideal diversification tool. Gold is also remarkably liquid; it is even one of the easiest assets you can sell. Sometimes our private clients do not believe how easy it is to sell, even as much as USD10 million, or more, at one time.”

Rotbart highlights how and why gold has been rising steadily – from a recent decade low of around USD1,062 in late 2015, the metal has shot up to USD1,781 / ozt on July 2, and is already up around 17% this year.

“We know that gold in the long term appreciates an average of 10% a year, based on past performance,” he explains.

> **“The last 10 years saw gold appreciate about 6% a year, and it has been doing especially well this year, as fear grips the global economies and markets and gold has a very strong negative correlation to the market, so the deeper the dip is in the market the better gold performs, as we have been seeing in recent months.”**

Good for the private bankers

“This all means that when private banks and other wealth managers advise their clients in Asia,” he adds, “they can not only explain that gold is a great hedge against economic and financial market weaknesses, but they can also explain that it is a good hedge against some of the domestic currencies of this region, for example, the weaker Philippine peso or Indian rupees. So, in dollar terms for some investors in Asia, gold can perform even better than the headline dollar appreciation.”

Gold is also excellent for wealth protection, as it is a stable earner with low volatility and maintains its purchase power over time Rotbart explained. “Gold appreciates over time and if you look at the volatility of gold compared to, for example, the S&P 500 Index, which at the end of 1999 was at 1,458, and an ounce of gold stood at USD290. Today gold is roughly USD1,780 and the S&P500 stands at about 3,115, so gold is up more than 600% while during the same time the S&P500 is up only just over 200%. “That,” says Rotbart enthusiastically, “is a remarkable outperformance. Gold is very evidently an excellent medium to long-term hold.”

He remarks on a comment he recalls from the editor of The Financial Times, whom he reports had once said that journalists and gold traders like bad news. “Gold really is excellent as a holding in difficult times, or in anticipation of more difficult financial and economic conditions,” he states.

He also highlights how 1ozt of gold was worth USD35 cash in 1965, and these USD35 cash is equivalent to roughly USD290 today, inflation-adjusted. “Well,” Rotbart notes, “you can see how gold as a cash substitute performs far better than cash, as today's price around USD1,780 is more than six times higher than the adjusted cash price.”

Many appeals

Rotbart reiterates that gold appeals to many investors as a hedge against inflation which many believe to be a real concern given the massive government money printing and stimulus packages around the globe. Moreover, he explains, it can easily be bought, stored and insured outside the global financial system, so is largely immune to weakness in the global financial system itself.

Physical gold, he elucidates, is not a financial product. "That means it can be held privately," he explains. "It can be held directly by the client, or at secure logistics storage facilities in different countries, and clients can then also have access to it. If clients sell, they can get a same-day settlement as it is highly liquid with an excellent infrastructure and ecosystem. It is also outside the global financial system."

Asia's love affair with gold

Rotbart has enjoyed a successful 10 years in the global precious metals industry and five-plus years building his business in Asia, a region he loves professionally and personally. He observes that Asian people and investors have long had a love affair with gold.

> **"This region has been a region of gold bugs long before that term was coined," he reports. "Wherever you go in Asia, whether it be Thailand, China, Vietnam or other countries, people buy gold as a gift when a child is born, for cultural or religious ceremonies such as weddings, festivals and other special occasions. They like to buy gold jewellery when they have spare money."**

Rotbart explains that the precious metals investment industry has nowadays become highly professionalised in Asia, with an outstanding infrastructure of secure storage and logistics service providers, and insurance coverage, with specialists such as his firm that work in an entirely professional approach with clients who seek to buy, store and sell physical metals, especially gold bullion.

The precious metals market itself is monitored by the London Bullion Market Association, which supervises the refiners, the logistics operators, and the entire precious metals ecosystem to ensure it is professional and sound. "As long as you stay within this ecosystem," he reports, "all will be fine."

An industry of rising repute

Rotbart's firm helps individuals, companies and financial institutions buy, sell, transport and store physical metals such as gold, platinum, palladium, and silver. The services even extend for some clients to collectables as diverse as antiquities, diamonds and gemstones, autographs, or even stamp collections.

The business offers a global service, operating to and from 10 secure tax-free storage locations globally, and to and from 35 delivery and collection destinations. As member of the Singapore Bullion Market Association the firm can handle all purchases and sales of gold, silver, platinum and palladium bars and coins, offer secure international transportation and storage/vault services, can provide personal safety deposit boxes, and even facilitate lending services using precious metals holdings as collateral.

"We offer the professional level of services that investors must seek out for this type of purchase," he reports. "Clients can trade remotely, we work globally, we store gold in many top-flight locations, we offer a worldwide service across all time zones, and when clients call, we answer. We handle all logistics seamlessly, so the client can relax throughout the entire process. We are the one-stop gold-plated service provider."

"Clients can pick and choose which of our services they want to use," he notes. "Most clients opt for the bundle of services, so they will buy, they will ask us to ship it, we will custodise it directly, insure it, and then later liquidate it for them. And some clients for various reasons prefer to separate for example the trading and the custody, the latter perhaps with one of the big logistics companies. But, as I said, the bulk of clients choose the one-stop approach, which is both very cost-effective, very efficient and saves a lot of time and effort for them."

The J. Rotbart & Co. USP

Rotbart takes this moment to briefly highlight the firm's USP. "We see this as coming from three angles," he explains. "We are multi-faceted, and of a good size, so we can perform a seamless execution of buying through to storage and even helping arrange lending against gold as collateral, and we are global. We are a family business, and most of our clients are families, so we have great empathy with them and their wealth planning objectives and expectations. And we offer 24/7 service, complete accessibility, as our clients are dealing with their wealth, and we are dealing with huge sums for them. We must be constantly available, as we have been throughout this crisis, and will continue to be."

Rotbart then lists certain 'dos' of buying gold. He advises clients to use a professional company that can provide professional services and storage. Make sure that insurance is in place, make sure there is an insurance policy on your gold, which is itself an insurance policy. Stick to the London Bullion Market Association ecosystem: refiners that are accepted by the market. Gold must be 24-carat investment grade (99.99% pure). "Buy one-kilogram bars, which are the most acceptable in the market, and avoid working with anyone in the market that might be less than 100% professional," he advises.

"When you store gold in secure storage facilities," he continues, "it is stored privately and away from cybersecurity risk. The risk of someone stealing from a secure storage location in Singapore or in Hong Kong and getting away with it, is virtually zero, and if it did happen, it is fully insured, providing you work through reputable firms such as ours."

Get physical

He also articulates why in his firm's view, HNWIs should buy physical rather than paper gold. "Even the best gold ETFs are not backed 100% with physical gold," he reports, "Even the very best ETFs, and I won't name names, are not fully backed by the physical asset, as they use derivatives and other instruments to maintain the daily fluctuations. We therefore strongly urge clients who want to do more than simply speculate on gold prices to buy physical for medium to long term holdings. If the ETFs had to be redeemed, they simply would not have enough gold to cover that."

As to how much of any portfolio investors should hold in physical gold, Rotbart cites Ray Dalio, Founder of investment firm Bridgewater Associates, whom he says had once stated: "Most people should have roughly 10% of their assets in gold, not only as a good, long-term investment but also for its effectiveness in diversifying the other 90% of assets people hold…"

The positives from the negatives

Gold is an asset central banks hold, Rotbart also reiterates. "Central bank reserves are typically constructed according to three guiding principles: safety, liquidity and return," he explains. 2018 and 2019 saw the biggest purchases of gold by central banks since data started to be collected in around 1971." H1 2020 saw further major purchases by banks, notably by Russia and Turkey, he reports.

Rotbart adds that negative interest rates are the most dominant factor for central bank reserve management, and that significant shifts in central banks' views on gold reflect a changing global outlook, leading to expectations of a further significant increase in gold buying by central banks.

"Lower interest rates make gold more attractive to investors as a non-yielding asset," he reports. "Before Covid-19 reared its head, the US Federal Reserve lowered interest rates from 2.5% May 2019 to 1.75% by March 2020 and the Fed has since slashed the country's interest rate to 0%. The UK has cut from 0.75% to 0.1%, meanwhile. And investors across the globe are buying more and more negative yield bonds; in short, they are willing to pay a premium and ultimately take a loss for reliability and liquidity. In fact, negative-yielding sovereign debt stood at USD10.7 trillion in April, amounting to 18% of the global bond market.

The gold price has even been the beneficiary of supply chain disruption, as miners, refineries and mints worldwide have been forced to suspend of majorly reduce operations. Commercial and logistical air travel and shipping have been severely disrupted as well.

Good for the wealth management industry

Rotbart also remarks on why wealth management experts, the typical Hubbis clients and readers, should include gold in the suite of products and ideas for their clients. “You are bringing in non-mainstream concepts and an additional creative solution that will benefit the clients,” he remarks. “Your clients will appreciate when you offer something that is not necessarily linked to your institution, you can work safely and efficiently with professional firms such as ours, and you can make money from it as we do offer a referral fee program, as there are transaction fees, storage fees and other recurring fees.”

Remember, he adds, that the wealth community should be driving both towards diversification and security for the wealth of their clients. “Relationship managers have a great lead into these discussions during times of crisis such as this,” he remarks.

He closes the discussion with some views on what to expect next. “Global unemployment,” he says, “the arrival of significant inflation or perhaps disinflation or stagflation, the proliferation of negative interest rates, the continuing supply-chain disruption, further potential weakness in mainstream financial markets, massive government debt across the globe and further QE, uncertainty about the direction of the US dollar or even worries about fiat currencies per se, the possibility of rising social unrest, these are all factors in favour of gold. These are just some of the reasons why Bank of America in April predicted gold could appreciate to USD 3,000 by October 2021.”

Rotbart’s Key Priorities

Gold is on track, Rotbart remarks, and so too is his business itself, which he reports has been working well through this period of global stress. “My key mission ahead now,” he reports, “is to diversify further in terms of our services, firstly promoting our lending business. Gold is being under-utilised, and we think that helping clients collateralise and obtain loans against it will attract more investors to buy gold because then they can generate more revenues through other investments.”

His second priority is further expanding the footprint in Singapore. “We are well established in Hong Kong,” he reports, “but of course, Singapore is probably our biggest market because that’s where most clients prefer to store their gold. So, having more talent and resource in Singapore will help us, and support our expansion through Southeast Asia, where we see a lot of demand. We are already operating in Manila, as there has been strong demand from the Philippines, and we anticipate similar levels of appetite in Indonesia and Malaysia and some other countries.”

His third priority is to expand the logistical footprint in terms of being able to offer more location for clients, so, for example, Bangkok and Lichtenstein have come online for storage, as well as New Zealand now. “To achieve these expansion plans,” he reports, “we need the right partners, we need to make sure the insurance is professionally executed, shipping and logistics, tax issues must be handled efficiently, and so on. Geographical diversification of sales, trading and storage is increasingly important, especially in times like this when there have been many disruptions to all types of activities around the planet.”

Getting Personal with Joshua Rotbart

Born and raised in Israel, Rotbart attended the Hebrew University of Jerusalem, first graduating in Law and then obtaining his Master’s in Business. “I was very fortunate to live in Jerusalem for five years, which is a truly beautiful city,” he recalls. “Since then I have enjoyed an interesting and successful career, including specialising in vaults and logistics for global and regional banks in Singapore, and then in the past five years been building this business apace in the region.”

He is now in his 11th year in Hong Kong, having been drawn there first when his girlfriend at the time got a job offer as a ballerina for the Hong Kong Ballet Company. “I quit my job as a lawyer in Israel and followed her to Hong Kong, which turned out to be quite a successful move career-wise.”

Now married and with two boys, one aged four years and the younger one just four months, weekends are busy with the family. “We live in south Lantau Island, literally off the beach, next to the jungle, so we enjoy a lot of trail jogging and dragon boating, a lot of paddling and running.”

Joshua Rotbart

Managing Partner at J. Rotbart & Co.