Washington Crossing Advisors

Portfolio Comment

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About Washington Crossing Advisors
WCA strategies are offered through the Stifel Score Program (Research-Driven Portfolios). The management team has worked together for the past 20 years as market strategists and portfolio managers.

About Stifel
Founded in 1890, Stifel is one of the leading financial services firms in the U.S., providing full-service brokerage and investment banking services. Stifel is a leading underwriter and advisor for companies and a top provider of trade execution and securities distribution with nationally recognized research and a suite of asset management strategies.

STIFEL

OUR TAKE ON GOLD

Earlier this year, we reduced and subsequently eliminated gold from portfolios based on price, anticipated policy changes, and poor relative price momentum. We remain underweight gold ahead of the Federal Reserve's September Federal Open Market Committee meeting. We continue to monitor gold, however, and are maintaining the metal as part of our long-run policy allocations. We continue to see its value as an alternative asset under a variety of market conditions, since gold prices and the dollar often move in opposite directions from one another.

During the Great Depression of the 1930s, for example, the price of gold was revalued upward by 66% as a way of devaluing the dollar to stimulate the economy. Although individuals were forced to surrender gold to the Treasury at the higher price, the revaluation proved a benefit. During the 1970s, and after President Nixon severed the country's link to the metal for international settlement, gold again was one of the few assets to generate positive returns to investors as inflation set in. Holders of gold throughout the 1970s saw a 1,535% return as stocks and bonds endured bear markets.

From the end of the 1990s through the summer of 2011, gold again provided important benefits to help hedge traditional stock and bond portfolios. During those years, gold advanced to a peak price of $1,900 from $288 an ounce. The drivers for the rally included the bursting of the tech bubble, unspeakable acts of terrorism on U.S. soil on 9/11, outbreak of war in the Middle East, and an unprecedented financial crisis. This all led investors to seek stability away from traditional assets.

As you can see through these examples, gold has a history of providing some ballast for investors when traditional financial assets come under pressure. There is, however, no way to value gold. It produces no earnings, dividends, or coupon payments. Instead, it is priced based on market expectations for an array of factors, including expected currency movements, interest rates, inflation, and geopolitics. Supply and demand considerations for gold by central banks, industry, and consumers also play a role. Above all, confidence in the currency is most important. A return to steady growth and normal interest rates would tend to have a depressing effect on the price of gold.

Conclusion

We first reduced our exposure to gold relative to our long-run strategic target early last May. Since then, we have eliminated the position from portfolios. Still high prices, potential for lesser accommodation by the Fed (i.e., "tapering"), and poor relative price momentum all contributed to our decision to reduce exposure to the metal below our long-run policy allocations.

A material change in price, shift in monetary policy, or improvement in relative price momentum may provide reasons to revisit gold at some point. Without any of these elements in place presently, we are maintaining gold as part of our "palette" of asset choices, but opting to underweight the position until conditions change.

DISCLOSURES

The risk of loss in trading commodities can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

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