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# Do Precious Metals Shine? An Investment Perspective

David Hillier, Paul Draper & Robert Faff

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## Abstract

The investment performance of daily gold and silver prices have low correlation with stock prices. We provide evidence that all the returns of "abnormal" returns perform better than the market.

Precious metals have been a political and economic issue for 15 years. The price of gold and silver has risen sharply in the last decade.

We examine the investment performance of gold and silver through the analysis of their returns from 1976 to 2004. Gold and silver have a long history of being used as a store of value and have a

by analysis of precious metals. Precious metals may be used to reveal the underlying trends in the economy. Precious metals may be used to reveal the underlying trends in the economy.

investors and have more than 100 years of history. It is an important part of the global economy.

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central investment role in many countries, but platinum is normally used for industrial purposes and plays only a small role in investment activity. So, we included platinum as a control metal for comparative purposes.

This study differs from previous research in the area in several important ways. First, we examined the properties of precious metals in a global context by examining their relationships to both the S&P 500 Index and the MSCI Europe/Australasia/Far East (EAFE) Index. Second, our study covers almost 30 years of precious metal price data and includes the bull run of the late 1970s, the bear period of the 1980s and 1990s, and the strong performance of precious metals in the early 2000s. Third, we used recent improvements in volatility modeling to examine the hedging properties of gold, silver, and platinum within a time-varying context. Finally, by comparing the investment properties of gold and silver with platinum, we were able to differentiate the unique investment characteristics of gold and silver from that of their industrial counterparts.

We found that all three precious metals have low correlations with the S&P 500 and EAFE, which suggests that they have the potential to provide diversification within broad-based investment portfolios. Moreover, and most importantly, all three precious metals have some hedging capability, particularly during periods of "abnormal" stock market volatility. The real benefits of holding precious metals come during periods of market uncertainty. Our findings suggest that precious metals are a valuable asset management tool and are clearly different from equities have not been.

An examination of the historical data shows that their income is not as high as the buy-and-hold strategy. However, our results suggest that the volatility of precious metals is higher than is seen in the equity market.



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