From the Desk of CIO

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Investors Rush to Buy Gold on Dip, What about Shares?

As reported in the news from time to time that investors tend to rush in to buy gold whenever the price fall. The confidence to own gold is very high among those who believe in this precious metal. Gold is sold in the forms of jewellery, bar, nugget, coin, etc. Apparently, there are people who are waiting to buy gold whenever the price falls. The same does not seem to happen in the stockmarket although there are also some people who are keen to own fundamentally strong shares when the shares prices fall. However, buyers of stocks usually get jittery when the opportunity to buy their favourite shares arises as weak market sentiments make them change their mind. However, investors do not seem to share the same mind-set on gold and quality share investment when the investment approach is similar i.e., buy on dip and hold through the volatility.

Gold has always been a favourite investment for some people. Jewellery in the forms of bracelets, necklaces, gold chain, ring, gold leaf and pendant are normally purchased for special occasion such as wedding, birthday and for remembrance. Hence, people tend to rush in to buy gold when the price falls (*see Exhibit 1-3*).

Buying gold after the price falls is definitely a better strategy than buying this precious metal when the priceis high. Investors seem to be rational when making decision on buying gold.

Gold is a solid investment and traditionally is said to be a good hedge against inflation. Owning gold, however, is generally less profitable than owning quality shares over long term.

When the market falls there are plenty of "gold mines" waiting for investors to pick up. Quality shares are sold down under the pressure of weak market sentiment. Unfortunately, most investors are influenced by the voluminous negative news circulating in the social media.Instead of adding more of such sold-down stocks, some are doing the opposite i.e., they sell in panic.

While some may claim that if prices are going down, why not sell first and buy back later. This is not an illogical idea. In reality, it is not easy to time the market as V- shaped recovery may happen all of a sudden and those who sold earlier (hoping to buy back later) may not be able to catch the surge. Our experience shows that those who exited the market before market bottom will eventually miss the recovery. A few may return several years later when the economy recovers while the stock market has soared higher subsequently.

Getting investors to invest more when market is down is not an easy task but we know this is the right thing to do. We may not be able to buy the lowest, but we can take advantage of the market weakness to own quality shares at lower entry level.

Exhibit 1: Gold price drop attract investors

Price drop sparks rush for gold

Friday, March 31st, 2017 at Business | Corporate Malaysia

Source: Internet Mar'17

Exhibit 2: Buy gold when price dips

New Straits Times

Young Msians buying gold as investment make killing when price dips

By Teh Athira Yusof - December 1, 2020 @ 11:29pm

Source: New Straits Times Dec'20

Exhibit 3: Demand up when gold price down

Bangkok citizens sell off gold as price hits new high

Vietnam Investment Review

April 15, 2020 | 14:32

Source: South China Morning Post, Mar'21

Exhibit 4: Sell gold when price up

South China Morning Post

Gold is in demand as price drops, with Asian shoppers buying more bars and jewellery

Source: Vietnam Investment Review, Mar'21