

- HEDGE FUNDS

Hedge funds amp up gold holdings as prices soar: ‘The only way gold can go is up’

Stone Mountain Capital is among hedge funds and other firms piling into gold, sending prices to multi-year highs



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By
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Oliver Fochler, CEO and managing partner of hedge fund adviser Stone Mountain Capital, said he had increased his holding of gold by nearly 50% since the beginning of last year, driven by bets that an expansion in quantitative easing would diminish the value of currencies and push inflation higher.

It was a winning strategy, and he says there are more gains to come.

“With major currencies being diluted by government and central bank fiscal and monetary stimulus, the best way presently that you can store value, compared with paper money, is by buying gold,” he told *Financial News*. “If the whole economic system were to fail, gold would still have exchange value. In the near future, the only way gold can go is up.”

Gold prices have surged some 20% since a low in March and this week climbed to a [more than seven-year high](#). While the Covid-19 pandemic is a deflationary shock to the economy, traders may be looking to the prospect of a surge in inflation due to central bank increased money supply. Gold is typically a hedge against inflation.

Hedge funds have been central to the demand for gold, according to the latest data from the Commodity Futures Trading Commission (CFTC). The CFTC’s Commitments of Traders Report for the week ending 16 June showed financiers had increased their gross long positions in Comex gold futures to 135,945, up 9,538 contracts from 126,407 the previous week.

Several high-profile hedge fund managers have recently reaffirmed their commitment to gold. Crispin Odey, who runs Odey Asset Management, has been building up positions in his flagship fund, Odey European. According to a source close to the situation, holdings of gold futures now comprise nearly half the fund’s net asset value, with Odey holding positions in gold and copper mining companies including Barrick Gold and Kinross Gold.

Last month Odey, a notorious critic of central bank monetary policy, warned that governments might in future seek to make it illegal to own gold. “It is no surprise that people are buying gold,” Odey wrote in his April letter to investors, first reported by [Bloomberg](#). “But the authorities may attempt at some point to demonetise gold, making it illegal to own as a private individual. They will only do this if they feel the need to create a stable unit of account for world trade.”

Other hedge fund managers who have backed gold in recent months include veteran macro hedge fund manager Paul Tudor Jones and Paul Singer, founder of activist hedge fund Elliott Management, who wrote in a recent letter to clients, as [first revealed by Reuters](#), “This is a perfect environment for gold to take centre stage.”

Colorado-based global macro hedge fund Crescat Capital is another firm epitomising the sector’s recent gold rush. A letter sent to investors on 17 June, seen by *Financial News*, and written by founder Kevin Smith and Partner Tavi Costa, noted, “Gold remains the most ubiquitous global central bank reserve asset on the planet. We expect the world’s sovereign treasury departments acting in the national interest to provide strong demand for gold in the current global economic downturn.”

But other hedge fund managers urged caution, saying the clamour towards buying gold will cease if inflation does not rise sharply, as happened after the 2008 global financial crisis. “Quite apart from anything else, gold hardly constitutes a risk asset,” said a hedge fund manager speaking on condition of anonymity. “You shouldn’t be running a hedge fund if you are dependent on investing heavily in gold.”

Alpesh Patel, chief executive of Praefinium Partners, a hedge fund that expanded into private equity, said he thought the rush towards buying gold would be far from permanent. “The renewed interest that hedge funds have in buying gold seems to be speculative rather than being in for the long haul,” he said. “It is a bit late for hedge funds to be converted to the benefits of gold as a relatively uncorrelated portfolio diversifier.”

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