

Shariah-compliant gold funds offer better returns



By Shashank Shekhar on Monday, March 16, 2009

Shariah-compliant gold funds are offering better returns than the other funds as investment in the yellow metal has lifted its price by "multiples of a thousand dollars," according to the managers of Shariah-compliant funds.

Eric Meyer the Chairman and CEO of US-based Shariah Capital Inc., said: "That's (gold) one commodity everyone has confidence in. And if it's a Shariah-compliant fund investing into gold the confidence levels of investors are all the more higher."

Meyer along with the Dubai Government formed the Dubai Shariah Asset Management that launched four funds in Dubai early this year. The funds include DSAM Kauthar Gold Fund (DKGF), DSAM Kauthar Energy Fund, DSAM Global Resources and Mining Fund Limited and DSAM Kauthar Natural Resources Fund Limited.

All these funds are Shariah compliant that compliment their strengths. "The transactions and investments need to be based on assets and that makes the investors feel confident. These funds are performing better than the other funds that we had " Meyer said.

The DSAM Kauthar Gold Fund now records a year-to-date (YTD) return of 5.63 per cent. "Gold investments have contributed to the cumulative performance of the four funds," Meyer said.

Currency devaluations have particularly shifted the focus to gold. Meyer said. "Printing more paper is eroding confidence in it. So, not only gold, but every hard asset is becoming more reliable. Gold especially has attracted a lot of investments."

The DKGf Manager John Hathaway said besides gold emerging as a safe haven for investors, jewellery demand has been a key contributor for driving up the prices. "Gold is in a long term bull market and the demand for jewellery is driving it. I am sure the gold ETF (exchange traded fund) that was launched recently will ensure a significant flow of capital," he said.

"Gold occupied five per cent of above ground financial asset in 2008. It occupied 22 per cent of it in 1982. In the depression of 1930s, the value of share of a company increased from \$4 (Dh15) to \$45 in a few years. It (gold), therefore, has a way to go," Hathaway said. Besides, gold the fund managers were also bullish on the other commodity funds. "Even in these circumstances the demand for gasoline in the US has increased 1.6 per cent year on year. One can invest in energy companies that have less than 15 per cent debt in balance sheets," said Ashton Lee the portfolio of DSAM Kauthar Energy Fund.

Meyer said decision by fund managers to increase investments in gold by 1.2 per cent may lead to 40,000 tonnes of gold being pulled off markets increasing the price of the metal by "multiples of a thousand dollars."