INVESTING IN PLATINUM AND COMMODITIES

Commodities were traded long before stocks and bonds and can be added to the portfolios of retail, as well as professional, investors

'Commodity' is the name given to a type of investment asset that is either a physical object or derived from an underlying physical object. Commodities are natural resources, minerals or raw materials that form the basis of our economy and upon which we often depend for our day-to-day existence.

There are four categories of commodity that are traded: agricultural commodities, including crops like corn, wheat, soybeans, coffee and cotton; energy commodities, such as crude oil, natural gas and gasoline; livestock and meat; and metals, from precious metals like gold and platinum to copper and nickel.

Metal trading as we know it today began in the mid-19th century with the founding of the London Metal Exchange (LME), which remains the world centre for industrial metals trading. In 2019, 176 million 'lots' or contracts were traded at the LME, equating to US$13.5 trillion.

As an asset class, commodities performed well in 2019 with the Commodity Research Bureau Index (CRB) rising 9 per cent. The CRB measures the aggregated price direction of various commodity sectors and is comprised of a basket of 19 commodities.

Further, a recent analysis by U.S. Global Investors of returns from investments across all major commodities ranked platinum fourth for its performance in 2019, ending the year on a four-year high. This comes on the back of a year which saw a record level of platinum exchange traded fund (ETF) purchases in 2019 of around 1 million ounces (28.3 tonnes).

DID YOU KNOW?

Last year saw a record level of platinum ETF purchases of around 1 million ounces, more than 28 tonnes

Gaining exposure

Commodities investing was once considered to be the preserve of the professional investor, although there are now many different ways for all investors to gain exposure to commodities, including platinum.

Investors wanting to own physical platinum can purchase bullion products (coins and bars), either directly from sovereign mints or through online platforms and retailers and other authorised dealers. Bullion can be traded and, although premiums do apply for supplier margin, transportation and vaulting, bars and coins can be attractive to investors as they carry no credit or counterparty risk.

Investing in platinum via an exchange is also an option. ETFs are listed entities that issue shares which can be traded on an exchange, meaning that prices can vary throughout the day. Investors can buy and sell shares in an ETF, either directly from the stock exchange it is listed on or through a broker or bank.

With a physically-backed platinum ETF, investors know that the value of their shares is 100 per cent matched by physical platinum in the form of investment bars. These platinum bars, held in a highly secure vault, are the only assets of the fund and reflect the platinum price, less fees – which are typically well below one percent per annum. This type of asset allows an individual or asset manager to invest in physical platinum without incurring additional costs, such as insurance premiums and storage.

Private, as well as professional, investors can also access the futures markets. Platinum futures are financial products that allow participants to lock in a future platinum price by entering into a binding contract that commits them to buying or selling an amount of platinum at a fixed price at a future date. Investors can then either exercise the contract on its expiry date or - depending upon their view of the market - trade the underlying contract, allowing them to make a profit, subject to market movements.

Including platinum in a portfolio can, like gold, add diversification, as well as protecting against inflation, currency risk and negative interest rates. As platinum is an industrial as well as precious metal, platinum investment is also a way of preserving wealth and gaining upside from global growth.

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