Basler Kantonalbank

Precious metals

This document contains information on the specifics of precious metals. It informs you about possible benefits and risks of this product class. These basics can help you with your investment decisions. For further information and if you have any questions, please contact your client advisor.

General information

Precious metals include gold, silver, platinum and palladium. Investments in precious metals can be made directly through the purchase of a physical metal (bars or coins), through a metal account or indirectly through the purchase of investment fund units, derivatives or structured products.

Types of precious metal investments

Physical metals: With a physical investment, the investor can choose between different units whose weight and purity vary. With the purchase of physical metal, the investor acquires ownership of the metal in question.

Metal account: The metal account with delivery claim serves the purely book entry investment in precious metals such as gold, silver, platinum and palladium in account form. The delivery claim is booked in grammes or ounces. A separate account is kept for each metal.

Investment fund units: An investment in precious metals is also possible in the form of collective capital investments. Physical delivery of the precious metal is usually not readily available.

Possible benefits

Potential through price gains: Precious metals such as gold, silver, platinum and palladium are a popular form of investment, particularly in uncertain times or during turbulence on the financial markets. However, because their price development is usually decoupled from movements on the equity markets, precious metals are seen not only as a safe 'crisis currency', but also as an ideal diversification of the portfolio. Central banks, for example, also hold gold positions as an alternative to classic currencies and as a counterweight to the US dollar.

Possible risks

When an investor deposits the precious metal with a bank, it is physically held at the bank directly or with a custodian on behalf of the bank. In the event of bankruptcy, the investor's physical metal does not, under Swiss bankruptcy law, form part of the bank's bankruptcy estate.

If, on the other hand, the investor has decided to open a metal account, they have only a delivery claim to the metal, and not an ownership right. In the event of bankruptcy of the bank, the claim falls into the bankruptcy estate and is not subject to the Swiss system of deposit protection.

In the case of precious metal investments in the form of an investment fund, in the event of bankruptcy of the fund management company, the fund assets are segregated from the bankruptcy proceedings and paid out to the investors.

Risk of loss: The price of precious metals can fluctuate greatly, particularly depending on the market situation and economic factors, which can lead to massive price losses.

Market risk: The value of the precious metal may decline. Price formation is determined by the relationship between supply and demand. Both supply and demand can fluctuate significantly because of changes in investment behaviour or risk appetite or political events.

The price development of precious metals can also depend on other factors such as production costs, demand from non-financial sectors such as industry and jewellery, monetary policy or the reserves built up by central banks.

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Risk of an investment horizon that is too short: Since precious metals can be subject to strong price fluctuations, they are more suitable as a long-term investment instrument. Fluctuations are more easily balanced out over a longer period of time.

Liquidity risk: It may be that precious metals cannot be sold at short notice or only at an unfavourable price in an illiquid market.

Cluster risk: Risks arising from the composition of an investor's overall portfolio are referred to as cluster risks. Cluster risks arise when a portfolio is overweight in certain financial instruments, issuers or asset classes, such as precious metals, and these therefore make up a large part of the portfolio. Less diversified portfolios are more likely to suffer greater losses than more diversified portfolios. To reduce the overall risk of price fluctuations, it is therefore important to ensure sufficient diversification of the portfolio.

Foreign currency risk: If the securities portfolio contains financial instruments in a currency other than the investor's home currency, there is a risk that the value of investments will fall from the investor's perspective because of exchange rate fluctuations. It may be that the price gain of an investment in foreign currency results in an overall loss for the investor because of changes in exchange rates. Exchange rates can fluctuate very strongly.

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