

Peak Values Ltd

Lesson for Investors:
From Turkey with love.

Investment Committee



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I am a firm believer in the necessity to learn from crises, as I see crises as a result of wrong decision making in the past. So for me the learning process is a sort of an ingredient in a continuous improvement of risk management process.

One of the criteria an investor looks at in basing his/her decision on is historic performance.

Looking at the following chart,



investors would tend to prefer the performance of the asset on the blue line rather than the yellow one. However, we are talking here about the same asset class albeit in two different currencies. The yellow line represents the performance of Gold in USD terms, while the blue one in Turkish Lira terms.

The chart depicts that an investor who paid for his Gold in Turkish Lira would have made a dream performance of 188% in 5 years while the other one who paid for his Gold in USD lost about 10% in the value of his money.

This is a completely wrong interpretation, for the Turkish Lira lost against the USD in value during the last 5 years 218% as per the following chart.



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This is a very important lesson, here is Why?

Turkey's economic future is far from certain, fact is however that its currency has lost in value as a result of Turkey's large fiscal deficit and heavy borrowing, resulting in Inflation which in return was caused by an increase in the supply of Turkish Lira in an attempt to solve the poor fiscal position.

As a result, the Turkish Citizen who held savings in his national currency is today much worse than before as the purchasing power of his money has deteriorated, meaning he can buy less with his money than what he used to be able to in the past, even two months ago. The other Turkish citizen, who held his savings in Gold instead of Turkish Lira, has maintained his spending power as the price of Gold has appreciated nearly in the same manner as the currency has depreciated. In a nut shell the second investor maintained his wealth.

So what are the take offs?

Most people and yes most economists describe inflation as rise in prices. The truth is inflation is a reflection in loss of value. Inflation is not caused by rising prices, its caused by other factors. But rising prices are a symptom of Inflation.

A prudent investor's main concern should be to at least maintain the value of his wealth prior considering any other investments. By doing so one of the factors he should carefully look at is the country's fiscal policy. Believe it or not, the case Turkey is in fact a mild one, history is filled with more severe hyperinflation cases, such as Germany last century, and Zimbabwe and Venezuela in recent times.



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Modern time Central Banks argue in favor of a moderate inflation rate, or better said stable prices and state that 2% level of annual inflation rate is acceptable level in ensuring both maximum price stability and sustainable employment. The flip side of it is, although 2% on annual base seems to be a small percentage, compounding it annually would lead to a deterioration of the purchasing power in 10 years by 24%. In other words nearly a quarter of the wealth is wiped out in ten years in terms of purchasing power.

Going back to the original example: Gold as an asset class, with all its imperfections has always been successfully tested against fiat money and is a good hedge against inflation.

Last word of caution: when investing in Gold, investor should always invest in the physical one and not paper Gold.

Wishing you profitable investments

Fares Mourad
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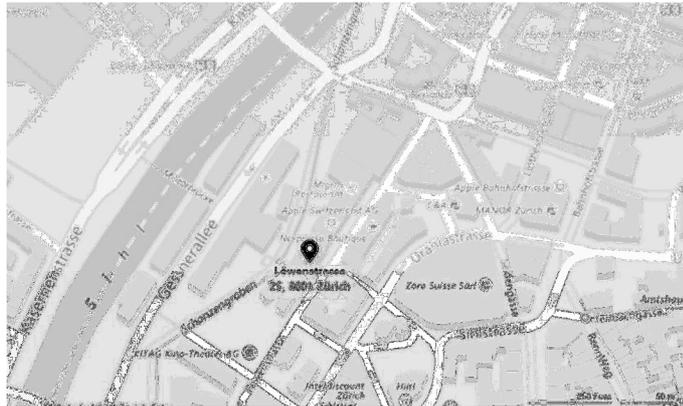
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