



## Newsletter – Jan/Feb 2025

The year has started well for gold after a very positive 2024. You can see how some were predicting a strong gold price in my April 2024 newsletter when gold was at \$ 2,300 and today is at \$ 2,900. <https://timunderwood.com/wp-content/uploads/2024/06/2024-April-Report.pdf>

After a long period of consolidation for 12 years, from 2011 to 2023, it probably has more gains ahead and is still a worthwhile hold. The rising gold price has several reasons while the reasons for investing in company shares is more straight forward.

The classic explanation for investing in shares is that they are linked to the economy and as companies generate business and profits, so they are able to generate and grow profits and dividends. However there is a case to be made that this classic explanation for share valuations has now been replaced by another factor and that is "money flows".

Consider the German economy. Last year in 2024 the German stock market gained in value 18% and since the the start of this year it has gained a further 15% (in just 2 months) so we would expect the German economy is doing very well. *Press release No. 019 of 15 January 2025. Wiesbaden - According to the Federal Stats office, the price adjusted GBP was 0.2% lower in 2024 than in the previous year!* So the economy is not doing well but the equity market is higher. What is going on ?

Looking at the major German companies we see the once dominant motor sector is indeed having problems. BMW one year -21%, Porsche -18% Mercedes Benz -16%, but other sectors are thriving eg. Siemens Energy (new energy) +300%, Rheinmetall (weapons) + 160%, SAP ( German high Tech ) + 50%, so asset allocation in the DAX is critical. But German company shares are not owned by Germans. USA investors own 39% of the DAX with German investors only 12% (2023). See <https://www.dirk.org/wp-content/uploads/2024/06/DAX-Studie-Wem-gehoert-die-Deutschland-AG-11.0.pdf>

Also noteworthy is that hedge funds are investors in the DAX. Is there a link between the USA stock market and the DAX as "money flows" reach across the Atlantic. If so the performance of US shares might have more of an impact on the DAX than the economy of Germany itself ?

A mentioned in newsletter November 2024 Warren Buffet, the famous investor, continues to sell shares and build up his cash reserve. His recent investor letter did not give the reason, just that he was a long term investor and some 70% of his assets are still in corporate shares. Interestingly he mentioned his holding in certain Japanese companies looked more and more attractive. That market peaked in 1989 at 39,000 ( Nikkei 225 ) and only in 2024 recovered to that level. Perhaps their GDP is now growing, or perhaps money is flowing into that market again after 35 years.

Best wishes

Tim Underwood

5 March 2025