THE INTANGIBLES
GOLD

With all the hype in cryptocurrencies caused by tensions all over the world, the original safe haven asset is flying under the radar. Gold has rallied to an one-year high in early September alongside increased inflows into gold ETFs and this might only be the beginning of a major breakout.

Properties of Gold
To understand why gold tends to rise in times of stress, the properties of gold but be examined. Out of every single commodity, gold behaves the most similarly to a financial asset because it a durable, non-reactive, non-perishable and cheap to store relative to its value. This makes it a more suitable store of value than other commodities such as corn or oil. Historically, gold has also acted as a medium of exchange and can be used to purchase goods and services. During periods of stress, when investors lose confidence in paper money as a store of value, investors may transfer their holdings into gold in which they see as a stable asset. Furthermore, since in periods of stress, housing prices tend to fall as well, investors may transfer their wealth into another real asset such as gold.

Tensions
In the short term, interest rates and the American Dollar move in the opposite direction of gold. Taking a look at the US Dollar Index (DXY), we see that it has fallen around 9.9% since the turn of the year which has made the dollar-denominated precious metal cheaper for foreign buyers. Furthermore, there has been weak US economic data which has lowered expectations of a potential interest rate hike by the Fed. US weekly jobless claims data has been extremely underwhelming with the most recent data showing that jobless claims rose by 62,000 to 298,000 - the highest level since Spring 2015. Furthermore, in the wake of Hurricane Harvey and Irma, this number could potentially increase even more making an interest rate hike even more unlikely. Housing starts for July also came in at 1.155 million opposed to the 1.22 million expected which deflated expectations of a potential rebound in the housing market.

There have also been many unfortunate events in August and early September that is slowly drawing investors into safe haven assets. The potentially devastating impacts of Hurricane Harvey and Irma can impact the American economies in many ways. Irma may shake the financial markets by crippling insurance companies with estimates reaching $200 billion as Irma edges closer to Miami. Furthermore, Irma may dent the US job market, retail sales and manufacturing numbers as evidenced by the Bank of America reducing estimates by 0.4% to 2.5%. There is also increasing political tension with ongoing investigation in Russia’s involvement in the American election coupled with the growing friction with North Korea. These events that could offer a shake up to the financial markets have caused the volatility index (VIX) to begin to deviate from its dormant state of around 10-12%.

Inflows into gold
The surging inflows into gold have been occurring in a variety of ways as gold miner ETFs, spot gold and gold futures have all been hitting yearly or historical highs. The volume on the COMEX; the largest gold futures
exchange hit a staggering 6.55 million contracts, a historical high for a nominal value of almost $900 billion. In the past week, investors also had inflows of over $1 billion into the largest exchange traded fund backed by bullion (GLD). These inflows have seen gold break $1300 in late August and briefly touching above $1350 in early September along with a 7% quarterly gain in the ETF for gold miners (GDX). These positive inflows combined with an upward price movement mean that investors are building up holdings in gold and are bullish. On a side note, there was another “fat finger” occurrence in gold with over 21,256 lots (2 million ounces) traded at 9:41 am on August 25th.

Technical Analysis

From a technical analysis standpoint, the most crucial event for bullion bulls occurred in late July. On July 28th, 2017, gold would once again break through its long-term downtrend originating from the peak of gold prices in June 2011. This downtrend was previously tested a few times to no avail in October 2012, July 2016 (implications of Brexit), November 2016 (Trump election) and most recently in June 2017. However, as the expected retracement occurred, the former resistance line would hold as a support and the price of gold bounced right up. As gold continued to surge, it looks very likely that this is not a false breakout, but the actual end of the downtrend. To further support, the end of this downtrend, we can turn to the RSI index, MACD and the volume. The RSI, MACD and volume are all moving in the same direction as the price of gold further strengthening the idea of an uptrend. This break of the long-term resistance is also significant because now, there is no material bearish pressure from a resistance line anymore which means that the main resistances from a technical standpoint will be round numbers.

With the current success of Bitcoin overshadowing many assets, investors should be careful not to forget many other investments. Gold is one such investment and is thought to be a safe haven asset for times of stress. The long-awaited end of the downtrend line also provides an opportunity for technical traders to potentially take advantage of. Investors must also consider that there are many other good investments to take shelter from the American stock market that may be beginning to lose investor confidence. There are many investments that have been incurring huge inflows in the past month such as European equities, Japanese equities, emerging markets, bonds and high-yield bonds as a result from outflows of American equities.
History

One of the most important ingredients that make Coca-Cola one of world’s leading brands is: innovation. Dr. John S. Pemberton is an Atlanta pharmacist in 1886, created this distinctive tasting soft drink by mixing his flavored syrup with carbonated water and started selling at soda fountains. Originally served at 5 cents per glass, with a modest 9 servings per day. Prior to Dr. Pemberton’s death in 1888, majority of his business was sold to Atlanta businessman, Asa G. Candler. While Coca-Cola (name given by Dr. Pemberton’s partner and bookkeeper, Frank M. Robinson) was getting expanded under Candler’s leadership, Joseph Biedeharn with the desire to make Coca-Cola portable, became the first to put Coca-Cola in bottles. In 1899, Biedeharn and two more businessmen in Chattanooga Tennessee buy concentrate from Candler’s and secured exclusive rights to bottle and sell Coca-Cola for just $1. The bottlers were also the first to realize that a distinctive sparkling beverage needed a consistent and recognizable bottle packaging to beat competitors who try to imitate their products. Coca-Cola’s marketing method was also considered innovative back in 1887. That is to give out coupons for free samples of the beverage, followed by newspaper advertising and promotional items bearing the Coca-Cola script at participating pharmacies. Coca-Cola then succeeded in connecting their brand with fun, friends and good times with lots of famous and familiar slogan. Coca-Cola has faced lots of challenges over the years, one of them is due to health concerns of coke and were solved by innovative version: diet coke.

Coca-Cola stock components

Candler incorporated Coca-Cola Company in 1892, has franchise distribution system. Now majority of the company is held by Coca-Cola Company with 66.04%. The second biggest holder is Berkshire Hathaway Inc. with 14.20%. The rest somewhat shared equally by Vanguard Group Inc., Blackrock Inc., State Street Corp., and Capital World Investors.

Coca-Cola stock valuation

✓ Adjusted Net income attributable shareholders of Coca-Cola Company has been declining since December 2012 from 9197USD to 6544USD ending December 2016.
✓ Adjusted Net Profit Margin has been declining from 19.15% at December 2012 to 15.63% at December 2016 Return on Equity has stayed stable around 28% over 2012-2016.
✓ Adjusted Return on Assets has been declining from 10.67% at December 2012 to 7.50% at December 2016.
✓ The intrinsic value of Coca-Cola’s common stock based on Free Cash Flow to Equity forecast(FCFE) is 48.43USD compared to the stock price as of September 2nd, 2017 of 45.78 USD.