

Checking in on Gold Exchange Traded Products (Gold-ETPs)

November 2, 2013

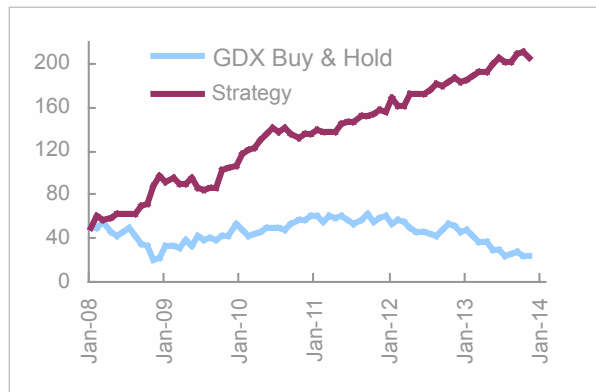
Overview

Some nice features of Gold-ETPs are that they are simple, safe, trusted, liquid, and inexpensive as there is no premium to pay for purity.

For the uninitiated, buying Gold-ETPs is purchasing gold in its electronic form. You can buy or sell Gold-ETPs just like you buy or sell the shares of an individual company through your broker.

It was brought to our attention that our Volatility-ETP strategy would also work on Gold-ETPs. We had never given the question much thought and felt the topic deserved some ink.

Days correct: 56.4%, Return: 54%, P/L: 1.79



The brown line in the graph above shows the results of going long/short the Market Vectors Gold Miners ETF (GDX). We have included buy & hold in light blue for comparison.

In what follows, we give a brief summary highlighting how the strategy is performing on 22 ETPs.

Key takeaways

- Leveraged Gold-ETPs rebalance their portfolios daily by trading in the same direction as the changes in Gold, buying when the index increases and selling when the index decreases. This rebalancing requirement is significant enough for a trend to gather substantial momentum near the close.
- Gold is a refuge of choice; inflows into gold-ETPs may spike when volatility spikes.
- It is possible to front-run Gold-ETPs “rebalancing” and take advantage of the anticipated momentum.

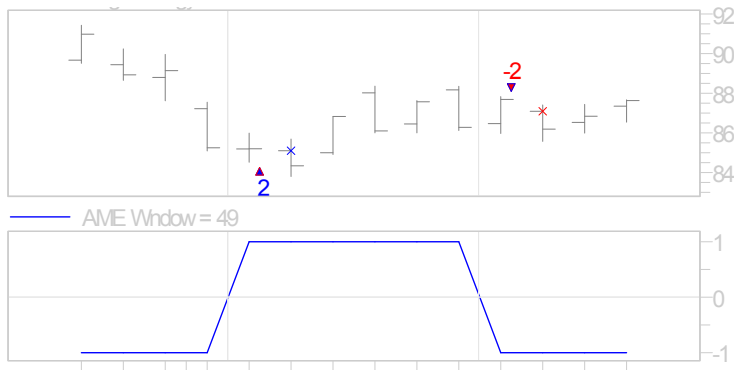
54%

Annual Return on Account achieved on GDX by timing the volatility VIX index

Chart Description

- Chart Name** AME #301 Gold-ETPs from VIX Nov 7, 2013
The original chart (AME #301 SPY from VIX) which the current chart is derived from was released August 6, 2012 with the [Noxa-AME package](#)
- Platform** NeuroShell Daytrader®
- Instruments** Gold ETPs (ETFs x14 and ETNs x8)
- Type** Volatility arbitrage by Timing the VIX index.
Chart #301 uses the volatility index VIX as proxy, meaning that the AME is applied to the VIX (the proxy) as opposed to the instrument; the resulting entry/exit signals are then used to trade the instrument (Gold-ETPs).
- Position Sizing** Fixed Size: Shares/Contracts = 1

Figure 1 | Strategy rules

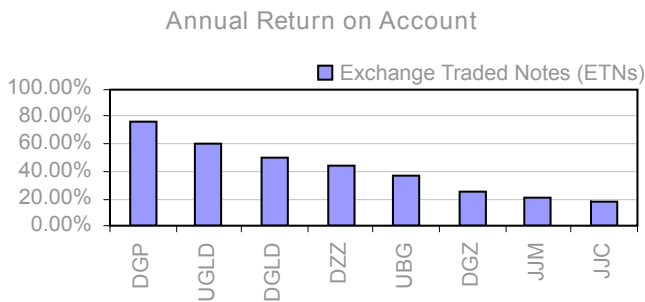
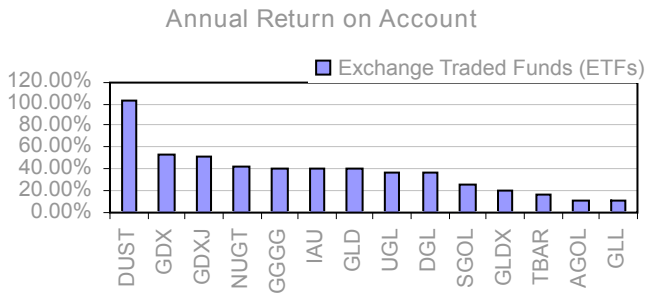


Go Long at the next available Open if AME of VIX Close (Window parameter set to 16) crosses over above the zero line.

Go Short at the next available Open if AME of VIX Close (Window parameter set to 16) crosses over below the zero line.

Performance statistics*

A preliminary note: The figures are given Out-Of-Sample (OOS); because the trading rules and parameter values of the strategy are those of chart AME #301 (they are kept unchanged), the results are obtained without the benefit of hindsight.



For more details, see Appendix A.

Screenshots of the equity curves are given at this address: <https://app.box.com/s/pw8ymtkh0j9wlym8ykjy>

An interpretation

How can we explain such consensus among ETPs of different origins? We see a possible explanation, in that Gold and the VIX index share a strong bond.

Leveraged Gold Index funds must rebalance their holdings on a daily basis to maintain their targets. We hypothesize that this rebalancing may account for a part of the total volume that is significant enough for a trend to gather substantial momentum near the close. And since Gold is a refuge of choice, inflows into gold ETFs may spike when volatility spikes. It is then possible for AME to front-run this rebalancing and take advantage of the anticipated momentum.

* Transaction costs are ignored; but because the strategy trades only once per 5 bars on average, transaction costs are minimal assuming a decent sized account.

Appendix

Appendix A | Summary Statistics*

	Symbol	Annual Return on Trades	Annual Return on Account	% Profitable Trades	Ratio Gross Profit/Loss
Direxion Daily Gold Miners Bear 3X Shrs	DUST	142.8%	102.6%	56.3%	1.57
PowerShares DB Gold Double Long ETN	DGP	67%	76.6%	56.4%	1.70
VelocityShares 3x Long Gold ETN	UGLD	79.1%	60.3%	58.3%	1.88
Market Vectors Gold Miners ETF	GDX	65%	54.0%	56.4%	1.79
Market Vectors Junior Gold Miners ETF	GDXJ	57.5%	50.8%	56.1%	1.64
VelocityShares 3x Inverse Gold ETN	DGLD	70.6%	50.4%	55.0%	1.47
PowerShares DB Gold Double Short ETN	DZZ	58.3%	44.8%	55.7%	2.05
Direxion Daily Gold Miners Bull 3X Shrs	NUGT	126%	42.1%	56.3%	1.68
Global X Pure Gold Miners ETF	GGGG	58.1%	40.6%	58.8%	1.86
iShares Gold Trust	IAU	32.2%	40.0%	56.7%	1.71
SPDR Gold Shares	GLD	31.8%	39.5%	56.7%	1.70
ProShares Ultra Gold	UGL	42.6%	36.4%	57.1%	1.56
UBS E-TRACS CMCi Gold TR ETN	UBG	39%	36.3%	51.7%	1.75
PowerShares DB Gold	DGL	30.5%	36.0%	55.7%	1.67
PowerShares DB Gold Short ETN	DGZ	30.6%	25.6%	56.4%	1.87
ETFS Physical Swiss Gold Shares	SGOL	24.1%	24.9%	55.9%	1.63
iPath DJ-UBS Ind Metals TR Sub-Idx ETN	JJM	30.9%	20.5%	60.1%	1.50
Global X Gold Explorers ETF	GLDX	45.8%	20.3%	56.3%	1.48
iPath DJ-UBS Copper TR Sub-Idx ETN	JJC	27.3%	18.6%	59.1%	1.41
RBS Gold Trendpilot ETN	TBAR	16.8%	16.7%	56.3%	1.17
ETFS Physical Asian Gold Shares	AGOL	11.5%	11.7%	55.0%	1.33
ProShares UltraShort Gold	GLL	38.9%	10.7%	56.3%	1.38

* Transaction costs are ignored; but because the strategy trades only once per 5 bars on average, transaction costs are minimal assuming a decent sized account.