1. Introduction of physical precious metals to Kinesis

Precious metals are able to be introduced to Kinesis via the existing Allocated Bullion Exchange vaulting network which encompasses vaults in Sydney, Singapore, Hong Kong, Dubai, London, Zurich and New York. The ABX Quality Assurance Framework details at section 10.4 the manner in which bullion deposits are allowed to be made and the supporting documents required.

The precious metals are then digitalised using the Kinesis blockchain technology, a proprietary fork of the Stellar Blockchain, allowing the currency holder to send it to other Kinesis Wallets, trade it on the Kinesis Blockchain Exchange, or spend it easily and freely using the Kinesis Debit card.

Kinesis has already begun announcing liquidity partnerships with some of the largest physical bullion trading houses.

2. Allocated title to the precious metals

Allocated title means the gold or silver is stored on your behalf at the vault. Neither Kinesis, the vault, or any other party has a proprietary interest in the gold. This removes the often-significant counterparty risk which is presented in many other forms of precious metal investment. Indeed, subject to minimum withdrawal amounts, Kinesis currency holders are able to redeem their currencies for the physical bullion.

This allocated ownership via Kinesis can be contrasted with unallocated gold or silver investments, whereby the metal remains the property of the company selling the gold or silver contract, with the purchaser merely becoming a creditor of that party. The seller may not actually own sufficient metal to fully back all metal sold, presenting counterparty risk to the purchaser.

3. The importance of precious metals

Gold provides excellent portfolio diversification due to its lack of correlation with traditional asset classes. As changes in the gold price are not significantly correlated with changes in the price of other mainstream asset classes, gold brings considerable diversification benefits to an investor’s portfolio. Importantly, this is a relationship that has been shown to hold across markets and over time (World Gold Council, An investor’s guide to the gold market, UK edition, 2010).
Independent analysis from Oxford Economics shows that investors with an average risk profile can benefit from adding a gold allocation of around 5% to their long-term portfolio. Gold's optimal share in an average risk portfolio rises in a scenario with higher inflation and is also seen to rise for low risk investors in a lower growth and lower inflation environment (Oxford Economics, The impact of inflation and deflation on the case for gold, 2011).

Gold is among the most liquid investment assets in the world; only three currency pairs (USD/EUR, USD/JPY and USD/GBP) exhibit higher daily trading volume. According to the GFMS Gold Survey 2015, global trading volume amounted to 550,000 tons of gold, or USD 22tn, in 2014. This was higher than the annual trading volume in Dow Jones Industrial Average stocks, S&P 500 stocks or the entire German stock market (Erste Group Research, Goldreport, 2015).

Highlighting the volatility of cryptocurrencies against gold, this chart shows the thirty-day moving averages of daily returns for gold, bitcoin, Ether and Litecoin.
Chart: Major cryptocurrencies are comparatively volatile when compared to gold

Source: Bank of International Settlements, Cryptocurrencies: looking beyond the hype, 2018