A Gold Fund’s Debacle Highlights Risks

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Any time a fund invests in something more esoteric than exchange-listed stocks from a developed country or widely traded high-quality bonds, the potential for something to go wrong increases. We saw this happen in December when the Third Avenue Focused Credit Fund—a mutual fund—suddenly shut its doors in response to junk bond losses. Last week new problems emerged in fund land, this time involving a popular gold exchange-traded fund.

BlackRock’s iShares unit was caught off guard by demand for its Gold Trust ETF (**IAU**). The company had more requests for creation units (blocks of 50,000 shares) than it could handle. IShares literally hit the limits of its ability to issue new shares. Simply put, there were more requests for shares than there were shares outstanding or could be created. As a result, iShares had to stop issuing creation units until it filed new paperwork with the Securities and Exchange Commission. (ETFs issue and redeem shares by trading with institutional traders using creation units, either baskets of the securities or commodities those creation units represent or, in some cases, monetary amounts equivalent to the value of the creation units.)

If this has you saying “Huh?!,” then welcome to the back-end side of the ETF industry. While the perception is that ETFs can scale up or down in response to demand by issuing or redeeming shares, things don’t always go as planned. More importantly, just because an ETF is supposed to be adjusted to its net asset value by market forces on an intraday basis, this is not always the case. The iShares website says that there were 55 days last quarter when IAU traded above or below its net asset value by a margin of greater than 0.5%. Not big discounts or premiums as neither exceeded 2%, but an indication that investors weren’t always getting a dollar’s worth of the underlying gold trust for every dollar they spent on the ETF.

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The Week Ahead

AAII's senior financial analyst, Wayne A. Thorp, CFA, will speak to our **Dallas/Fort Worth Chapter** on Wednesday and our **Houston chapter** on Saturday.

Right on the heels of fourth-quarter earnings season ending, we'll start to see results from the first quarter's early reports. Oracle Corp. (**ORCL**) will report on Tuesday, FedEx Corp. (**FDX**) will report on Wednesday and Adobe Systems (**ADBE**), Cintas Corp. (**CTAS**) and Lennar Corp. (**LEN**) will report on Thursday. All of these companies are in the S&P 500.

The Federal Open Market Committee (FOMC) will hold a two-day meeting starting on Tuesday. The meeting statement and updated forecasts from committee members will be released Wednesday at 2:00 p.m. ET. Fed Chair Janet Yellen will hold her quarterly press conference starting at 2:30. The CME's 30-day Fed fund futures are currently pricing in a 98.1% chance of a quarter-point rate hike.

Elsewhere on the economic calendar, the February Producer Price Index (PPI), February retail sales, the March Empire State manufacturing survey, January business inventories and the National Association of Home Builders' March housing index will be released on Tuesday. Wednesday will feature the February Consumer Price Index, February housing starts and building permits and February industrial production and capacity utilization. The March Philadelphia Fed survey and the January Job Openings and Labor Turnover (JOLTS) Survey will be released on Thursday. Friday will feature the University of Michigan's preliminary consumer sentiment survey.

The Treasury Department will auction $11 billion of inflation-adjusted Treasuries (TIPS) on Thursday.

Friday will be a quadruple witching day, meaning both options and futures contracts will expire.

Thursday is St. Patrick's Day; be sure to wear something green!

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