IE2111 Project Report:

Timeless Investments: A Comparative Analysis of Watches and Gold ETF

IE2111 Group 11

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1. Introduction

1.1 Problem Statement

The current economic situation impacting the whole world presents itself with a variation of unstable price hikes and tax raises. Singapore is able to greatly relate to the prospect of having faced a daunting tax raise, in the form of Goods and Services Tax (GST) as well as a growing inflation rate. In troubled times, a form of financial investment is needed to grow with time. Specifically, our group has decided to do a comparison between Gold-ETFs, tracking the Gold commodity market and famous Rolex watches, inspired from the old-time saying of, "A car depreciates, but a watch does not." Therefore, our project targets to provide a thorough analysis on helping investors to make informed decisions.

1.2 Problem Description

Our project aims to deliver a comprehensive analysis of the gains and losses of investing in Rolex watches versus investing in Gold-ETFs - specifically iShares Gold Strategy ETF (IAUF). Our goal can be achieved by analysing the historical data of these Rolex watches and IAUF. In the report, we will be using a Time-Series model to predict the future values of IAUF and Rolex watches, considering how the different aspects of uncertainties, scenarios, potential risks and non-financial factors affect the prices of Rolex watches and IAUF. As a result, we will be providing investors with decent analysis and suggestions on which of the two financial investments is the more appropriate investment.

The current economic situation impacting the whole world presents itself with a variation of unstable price hikes and tax raises. Singapore is able to greatly relate to the prospect of having faced a daunting tax raise, in the form of Goods and Services (GST). In troubled times, where a form of financial investment is needed to grow with time, our group has presented an Investment Analysis between famous tools of investment. Reaching into the form of Exchange-Traded Funds (ETFs), our group has decided to use Gold-ETFs to compare against famous Rolex watches, inspired from the old-time saying of, "A car depreciates, but a watch does not." Hence, this has set up our base for comparison; Gold ETFs versus Rolex watches over a fixed study period.

1.3 Key Assumptions

- **General Assumptions**
  - 12% MARR
  - Study Period of 20 years
  - Yearly annuities calculated are constant throughout the study period for each of the respective Cash Flows.
  - Individual's personal income tax is not factored into dividend returns
- **Key Assumptions for Rolex watches:**
  - Rolex watches are bought from authorised dealers at their retail price (RRP) and resold in the Grey Market for a profit after the study period.
  - Rolex watches are assumed to be sent for servicing every 5 years.
  - Servicing fee for Daytona is higher than that of Submariner due to the higher complication of the movement.
  - Insurance fee and servicing fees are a fixed annual cost.
  - Accessories such as a watch safe and/or watch box is considered as an initial investment cost.

- Initial cost includes Goods and Services Tax (GST).

- **Key Assumptions for Gold ETFs:**
  - Initial Investment Cost is set at $15,050 to form a fair comparison between the Rolex Submariner and the ETF.
  - Price per share is taken at $57.45/share ~ 262 shares.
  - Annual Dividend income is withdrawn for personal usage and NOT reinvested.

2. Decision Alternatives

Within a 20-year period, the best choice will be decided based on the cash flow that provides the highest worth, using any of the methods used to calculate future, present or annuity worth. Considering the risk of investing in ETFs in general, and the small risk profile of investing in the watches, we can derive the mean and variance of the alternatives.

2.1 Rolex Submariner

This alternative means that the investor chooses to purchase a Rolex Submariner from an Authorised Retailer. Initial analysis suggests that the investor will face initial losses due to maintenance and insurance costs. However, the trade-in value of the Submariner is expected to be significantly larger as compared to the resale prices of IAUF at the end of the study period. Non financial factors such as Global supply chain issues, greater demand for a competitor brand, and global issues such as Covid-19 pandemic play a crucial role in pricing of a watch. However, since these factors are not in the investors control, the base case analysis will not include the above, but will be included in the 'What-If' analysis.

2.2 Rolex Daytona

This alternative means that the investor chooses to purchase a Rolex Daytona from an Authorised Retailer. Initial analysis suggests that the investor will face a higher initial loss in comparison to the Rolex Submariner due to the more complicated movement of the watch which is reflected in their retail price. However, the trade-in value of the Submariner is expected to be significantly larger as compared to the resale prices of IAUF at the end of the study period. Non financial factors such as Global supply chain issues, greater demand for a competitor brand, and global issues such as Covid-19 pandemic play a crucial role in pricing of a watch. However, since these factors are not in the investors control, the base case analysis will not include the above, but will be included in the 'What-If' analysis.

2.3 Gold ETF ~ IAUF

This alternative means that the investor has decided to invest $15,050 into Gold ETF shares. More specifically, 262 shares. To understand deeper, different ETFs have different compositions. They are a collection of investments such as equities or bonds, diversifying the portfolio. The chosen ETF had a heavy composition of direct investment in gold, identified to be the iShares Gold Strategy ETF (IAUF), which provides the highest percentage of dividends - IAUF has a dividend yield of 12.51% and paid $7.17 per share, per year, in the past year.

Initial analysis suggests that the investor will be making more profits initially as compared to either watch model as the investor will receive annual dividend payouts which will be withdrawn for personal usage. However, after the study period the expected resale price is not expected to be as volatile as either watches due to the stable nature of the Gold commodity market and the ETF. Non-financial factors such as Geopolitical tension, Central Bank Policies, Global Economic conditions,and general market sentiments play a factor in the future share price of the ETF. However, these factors will not affect the purchasing

decision and will not be included in the base case analysis. These factors can be further analysed under ‘What-If’ analysis.

3. Time-Series Model

For the prediction of our future values for Rolex Submariner, Rolex Daytona and Gold-ETF (IAUF) we used Chronos, a simple yet effective framework for pretrained probabilistic time series models. Chronos trains existing Transformer-Based Language Models using a set of time series values that have been tokenized using scaling and quantisation. The Chronos model was used instead of a trained LSTM as it had much better bench marks when compared with the LSTMs validation scores. The LSTM was prone to overfitting due to the limited size of the dataset and the model being overfitted failed to capture the time series trend to be predicted properly. Chronos helped to solve the problem of overfitting and provided a probabilistic high and low within an 80% prediction interval. This thus allows us to further run monte carlos simulation given the probabilistic nature of the predicted interval. Chronos also uses zero shot learning to predict class labels.
Try Code in Google Colab

LSTM Scores for Validation Testing.

Test Loss:	0.003103693714365363
Test MAPE:	0.2769670551893415
Test Accuracy:	0.7230329448106585

LSTM Architecture

Layer (type)	Output Shape	Param #
conv1d (Conv1D)	(None, 3, 64)	256
lstm (LSTM)	(None, 3, 50)	23000
dropout (Dropout)	(None, 3, 50)	0
normalisation	(None, 3, 50)	101
lstm_1 (LSTM)	(None, 3, 50)	20200
dropout_1 (Dropout)	(None, 3, 50)	0
gru (GRU)	(None, 50)	15300
dropout_2 (Dropout)	(None, 50)	0
dense (Dense)	(None, 1)	51
Total params:	58908 (230.11 KB)	
Trainable params:	58807 (229.71 KB)	
Non-trainable params:	101 (408.00 Byte)	

3.1 Rolex Submariner

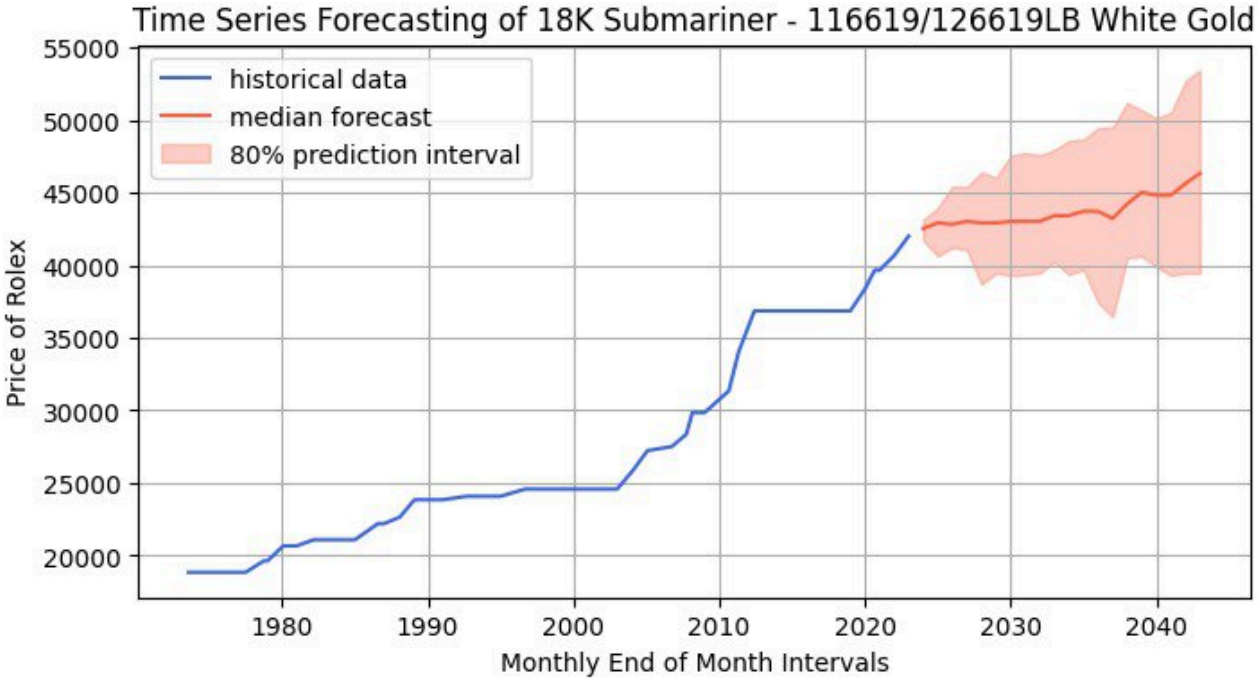


Figure 1: Time Series Forecasting of 18K Submariner

3.2 Rolex Daytona

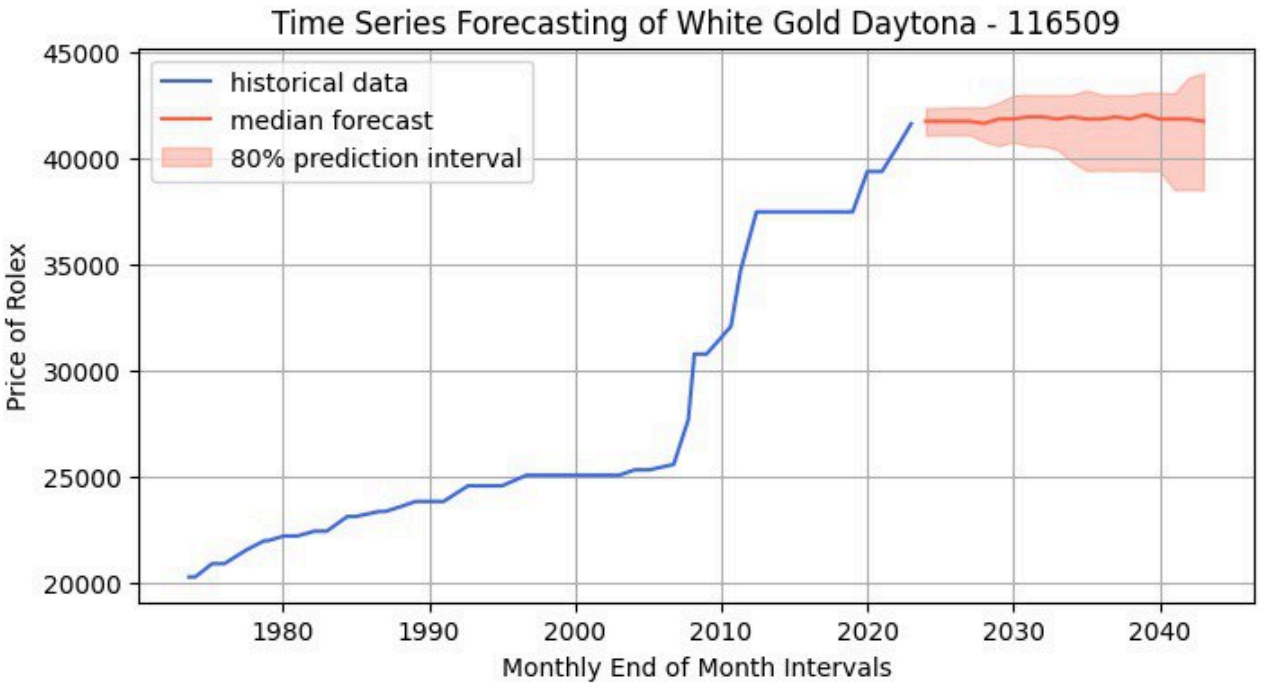


Figure 2: Time Series Forecasting of White Gold Daytona

3.3.1 Gold-ETF (IAUF)

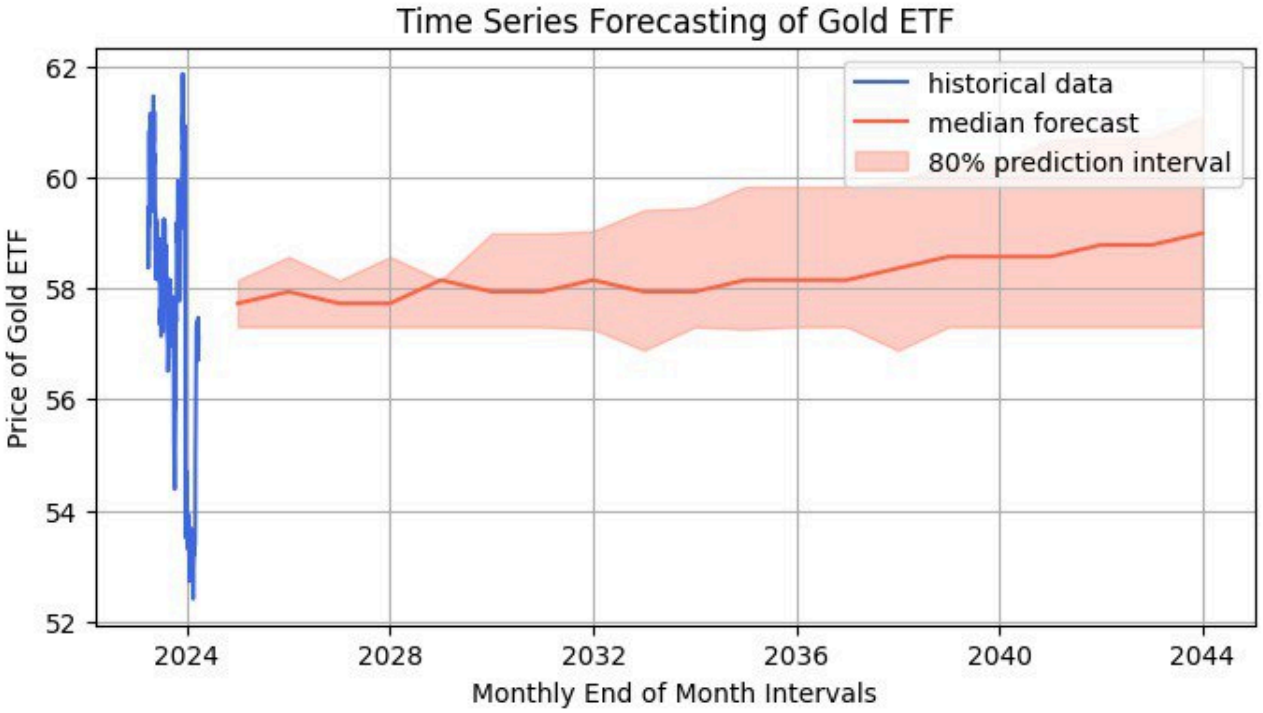


Figure 3: Time Series Forecasting of Gold ETF

3.3.2 Gold-ETF (IAUF) (Zoomed-In)

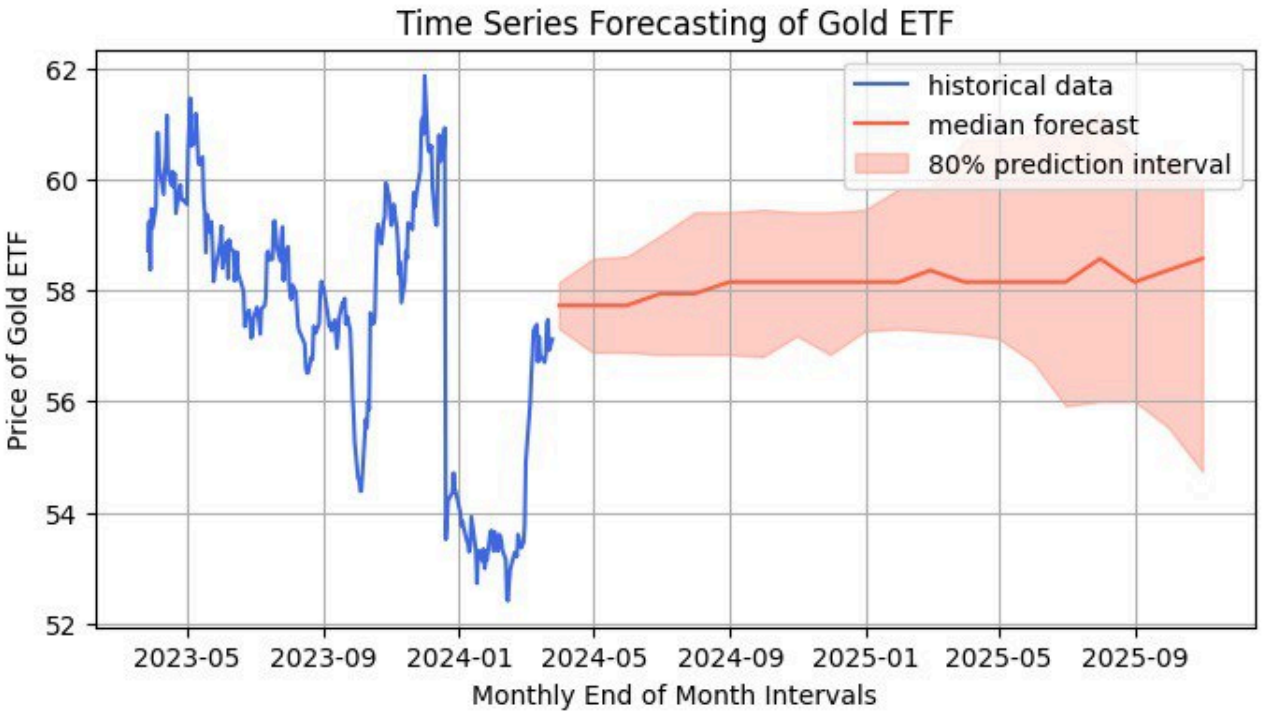


Figure 4: Time Series Forecasting of Gold ETF

4. Base-Value Data

Within a 20-year period, a predictive model was created to generate approximation of the base values. These estimation of values were needed for the cash flow methods to analyse the potentially more feasible alternative.

4.1 Rolex Submariner

	Submariner
Initial Cost	$15,050.00
Storage Cost	$300.00
Servicing Cost/yr	$80.00
Insurance Cost/yr	$89.00
Resale Value (LSTM)	$46,323.44
Resale Value	$46,323.44
Initial Investment	-$15,350.00
Annual Cost	-$169.00
Present Worth, PW(12%)	-$11,810.13
Annual Worth, AW(12%)	-$1,581.13

Figure 5: Submariner Base Values & Cash Flow

4.2 Rolex Daytona

	Daytona
Initial Cost	$22,100.00
Storage Cost	$300.00
Servicing Cost/yr	$100.00
Insurance Cost/yr	$145.00
Resale Value (LSTM)	$41,718.77
Resale Value	$41,718.77
Initial Investment	-$22,400.00
Annual Cost	-$245.00
Present Worth, PW(12%)	-$19,905.16
Annual Worth, AW(12%)	-$2,664.88

Figure 6: Daytona Base Values & Cash Flow

4.3 Gold-ETF (IAUF)

$57.45	🏛 iShares:Gold Strategy (BATS:IAUF)
Initial Cost	$15,051.90
Share Value (52-week span)	$57.45
Dividend/share (52-week span)	$7.17
Dividend/year	$1,878.54
Management Fee/year	$451.56
Resale LSTM/Price per share	$58.99
Resale Value (LSTM)	$15,455.38
Resale Value	$15,455.38
Initial Investment	-$15,051.90
Annual Cost	$1,426.98
Present Worth, PW(12%)	-$2,790.94
Annual Worth, AW(12%)	-$373.65

Figure 7: IAUF Base Values & Cash Flow

Shares Bought	262.00
Initial Investment	$15,051.90
Dividend/share	$7.17
Dividend/year	$1,878.54
Management fee/mth	$37.63
Management fee/yr	$451.56

Figure 8: IAUF Fixed Data

5. Financial Cash Flow Model

5.1 Rolex Submariner Cash Flow Model

Rolex Submariner

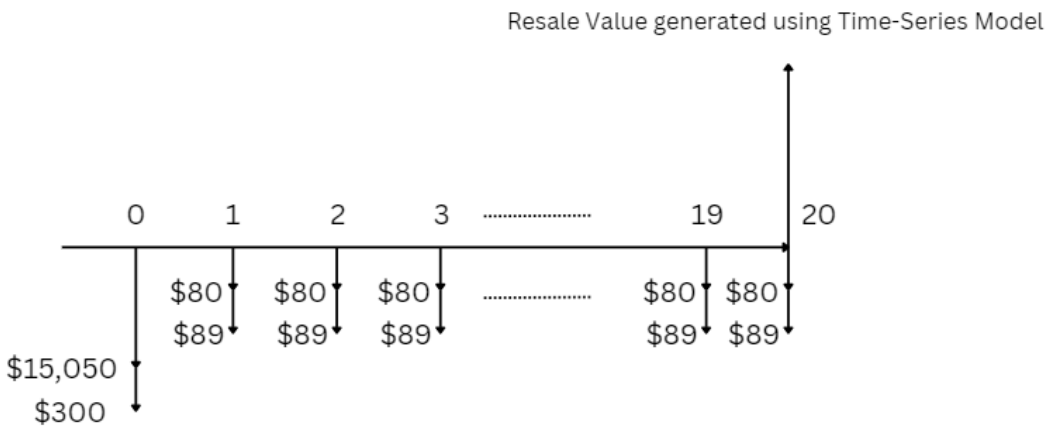


Figure 9: Rolex Submariner Cash Flow Diagram

Where:

1) Initial Cost at Year 0: Price of the watch + Storage cost.
2) Cash Outflow: Insurance and Service cost.
3) Final Year Cash Inflow: Resale predicted value of the watch.

5.2 Rolex Daytona Cash Flow Model

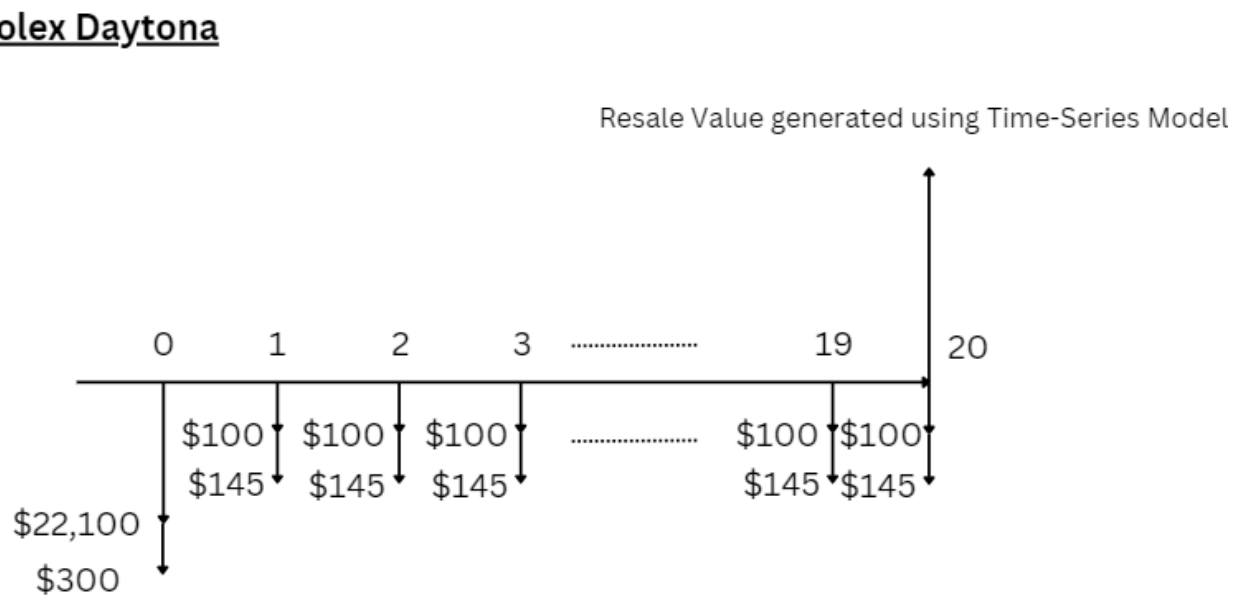


Figure 10: Rolex Daytona Cash Flow Diagram

Where:

1) Initial Cost at Year 0: Price of the watch + Storage cost.
2) Cash Outflow: Insurance and Service cost.
3) Final Year Cash Inflow: Resale predicted value of the watch.

5.3 Gold-ETF (IAUF) Cash Flow Model

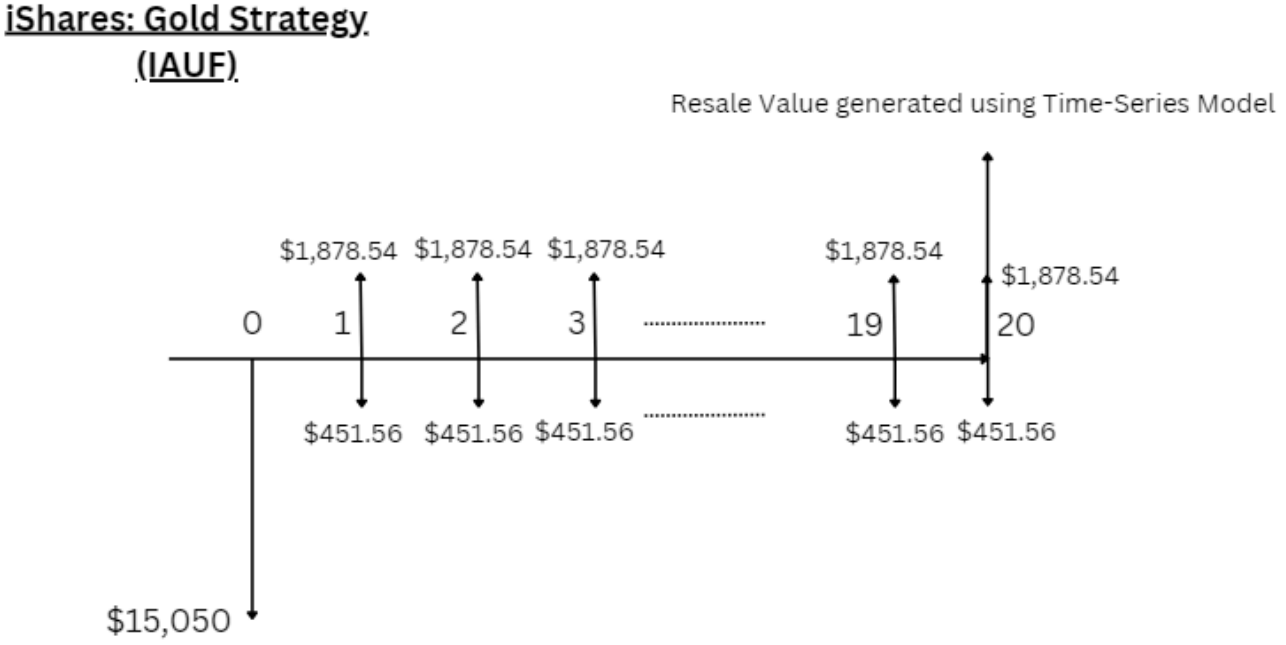


Figure 11:IAUF Cash Flow Diagram

Where:

1) Initial Cost at Year 0: Price of the shares.
2) Cash Outflow: Management cost.
3) Cash Inflow: Dividends earned from total shares.
4) Final Year Cash Inflow: Resale predicted market value of the shares.

6. Solutions based on base-value data

	IAUF	Submariner	Daytona
Resale Value	$15,455.38	$46,323.44	$41,718.77
Initial Investment	-$15,051.90	-$15,350.00	-$22,400.00
Annual Cost	$1,426.98	-$169.00	-$245.00
Present Worth, PW(12%)	-$2,790.94	-$11,810.13	-$19,905.16
Annual Worth, AW(12%)	-$373.65	-$1,581.13	-$2,664.88

Figure 12: Base-data analysis

Given the base-value data, the clear winner is the Gold-ETF (IAUF). Based on the Present Worth with a study period of 20 years, $PW(12\%)_{IAUF} > PW(12\%)_{SUBMARINER} > PW(12\%)_{DAYTONA}$, which suggests that IAUF should be chosen with the base-data and information. While all the projects are infeasible with a 20 year period, we can safely assume based on trends and the upwards trajectory of the Resale Prices of all three investments that the Discounted Payback Period > Study Period.

However, these base cases do not factor in deviations of prices due to financial and non-financial factors. The inclusion of such factors will most likely change the probabilistic outcome and we will explore such cases and alternatives under the 'What-If' Scenario.

7. Understanding Key Uncertainties

7.1 Rolex Submariner

Based on the Sensitivity Analysis conducted, the three most sensitive factors affecting the Present Worth were the Resale Value (NLP), the insurance cost and the storage cost of the Submariner.

Key uncertainties:

- Market Demand Fluctuations
- Competitor Brands (i.e Omega, Grand Seiko, Audemars Piguet, etc.)
- Supply chain disruptions due to political issues
- Changing Consumer Behaviour

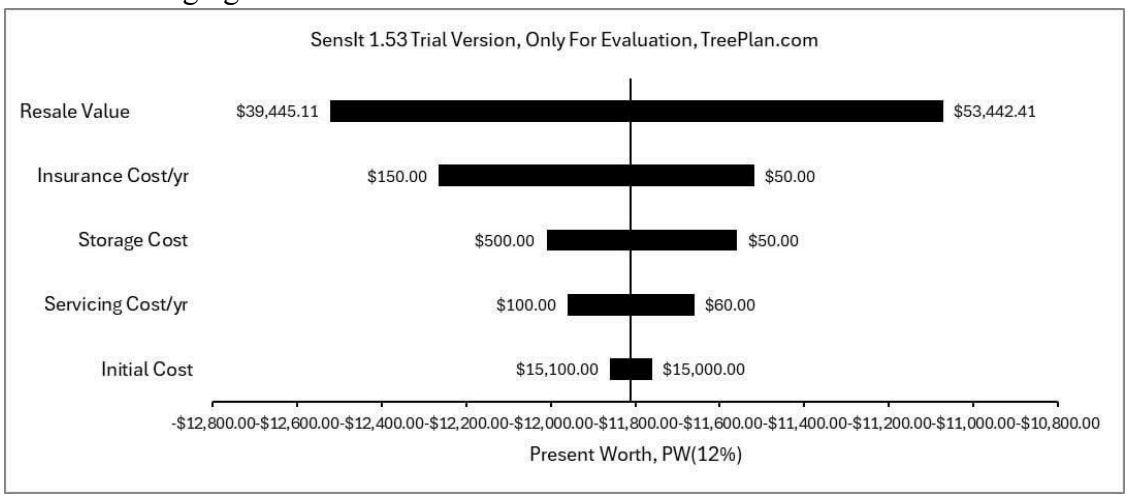


Figure 13: Submariner Tornado Diagram

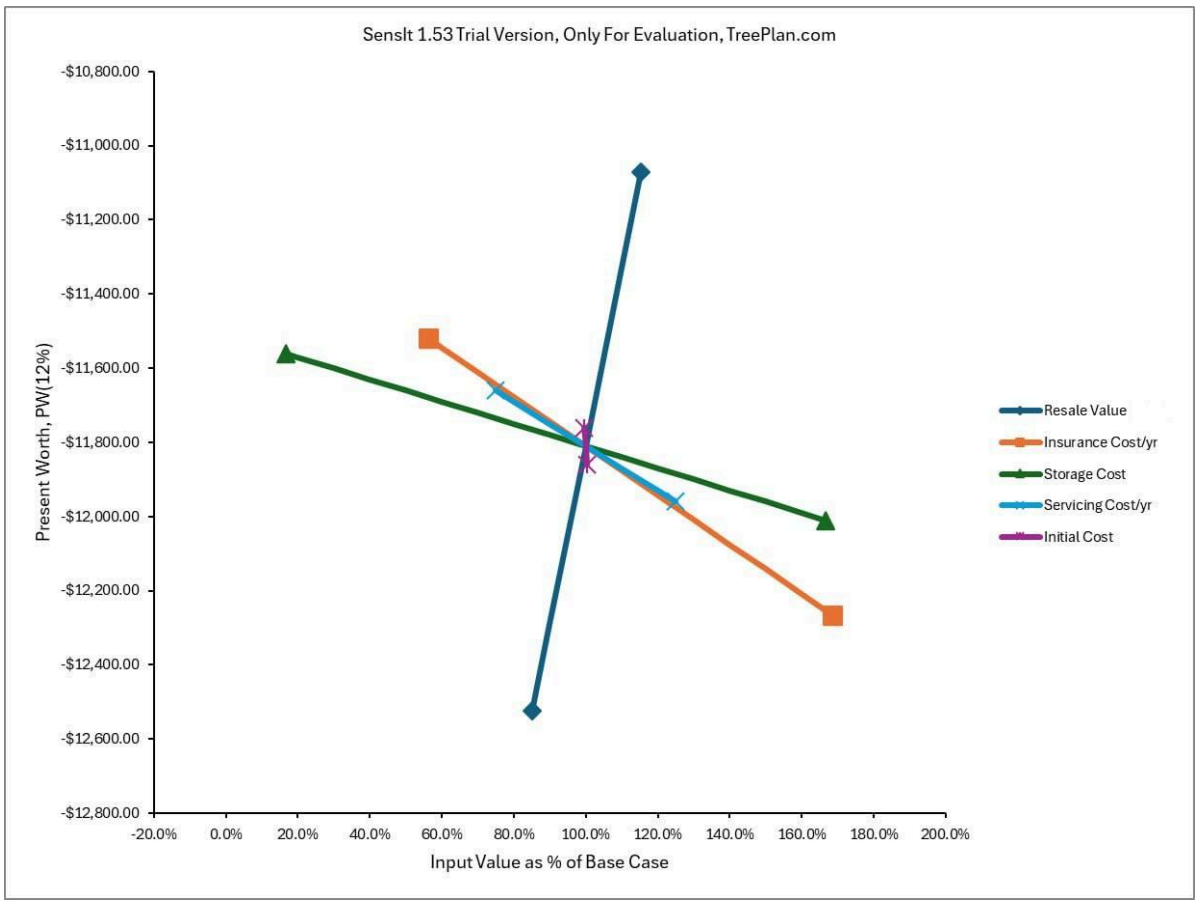


Figure 14: Submariner Spider Diagram

7.2 Rolex Daytona

Based on the Sensitivity Analysis conducted, the three most sensitive factors affecting the Present Worth were the Resale Value (NLP), the storage cost and the insurance cost of the Daytona. .

Key uncertainties:

- Market Demand Fluctuations
- Competitor Brands (i.e Omega, Grand Seiko, Audemars Piguet, etc.)
- Supply chain disruptions due to political issues
- Changing Consumer Behaviour

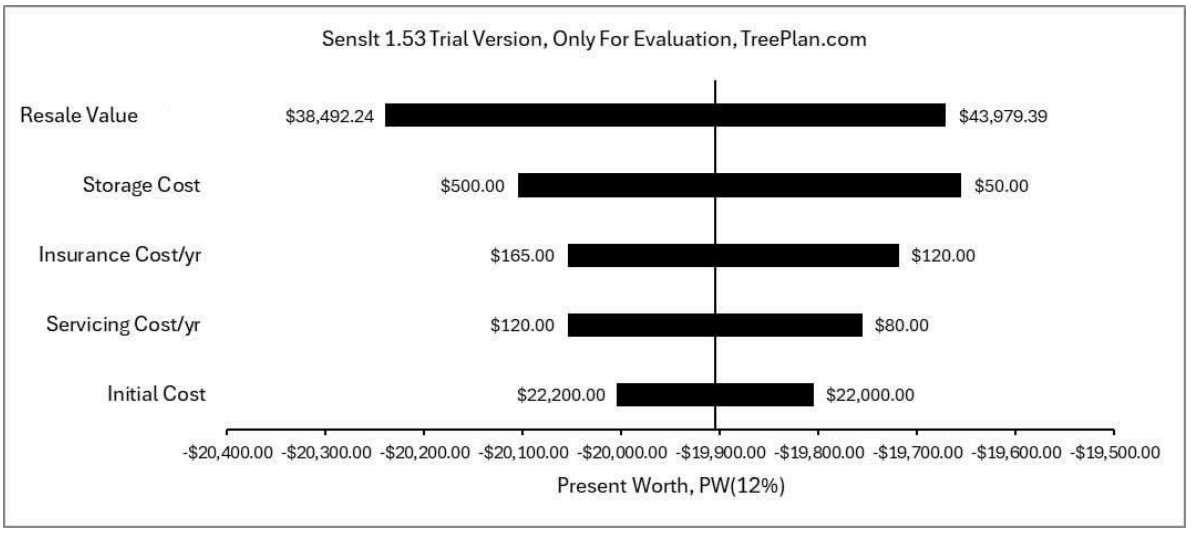


Figure 15: Daytona Tornado Diagram

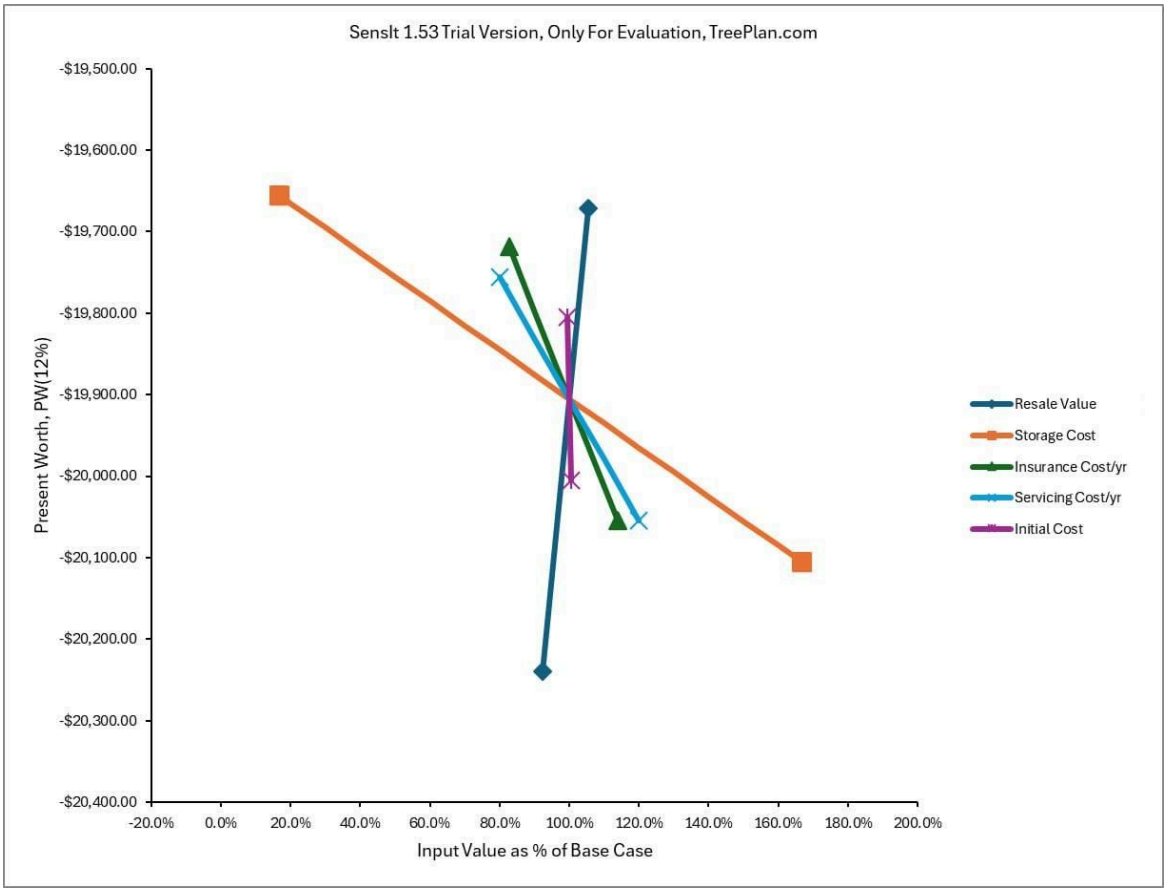


Figure 16: Daytona Spider Diagram

7.3 Gold-ETF (IAUF)

Based on the Sensitivity Analysis conducted, the most sensitive factors affecting the Present Worth were the Dividend/share assessed under a 52-week span, the Share Value (52-week span) and the Resale NLP Price/share. The other factors were seen not to be sensitive factors as their prices are derived from the most sensitive factors which directly affect the PW of IAUF.

Key uncertainties:

- Liquidity Risk (ETF)
- Higher use of Gold for jewellery
- Black Swan events (i.e. Pandemics, acts of terrorism)
- Changing Investor Behaviour

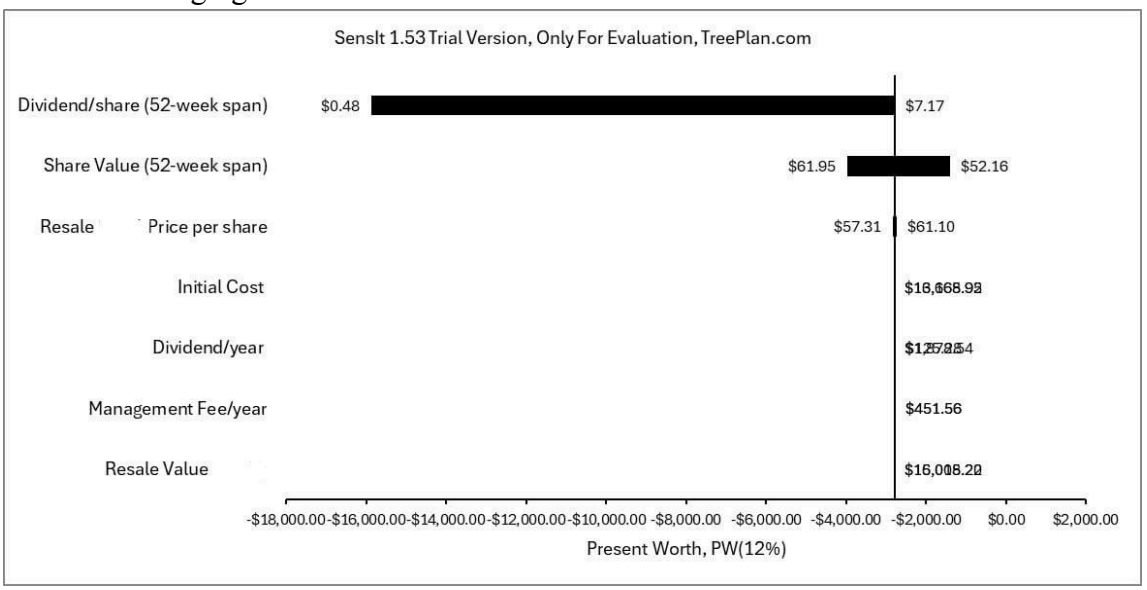


Figure 17: IAUF Tornado Diagram

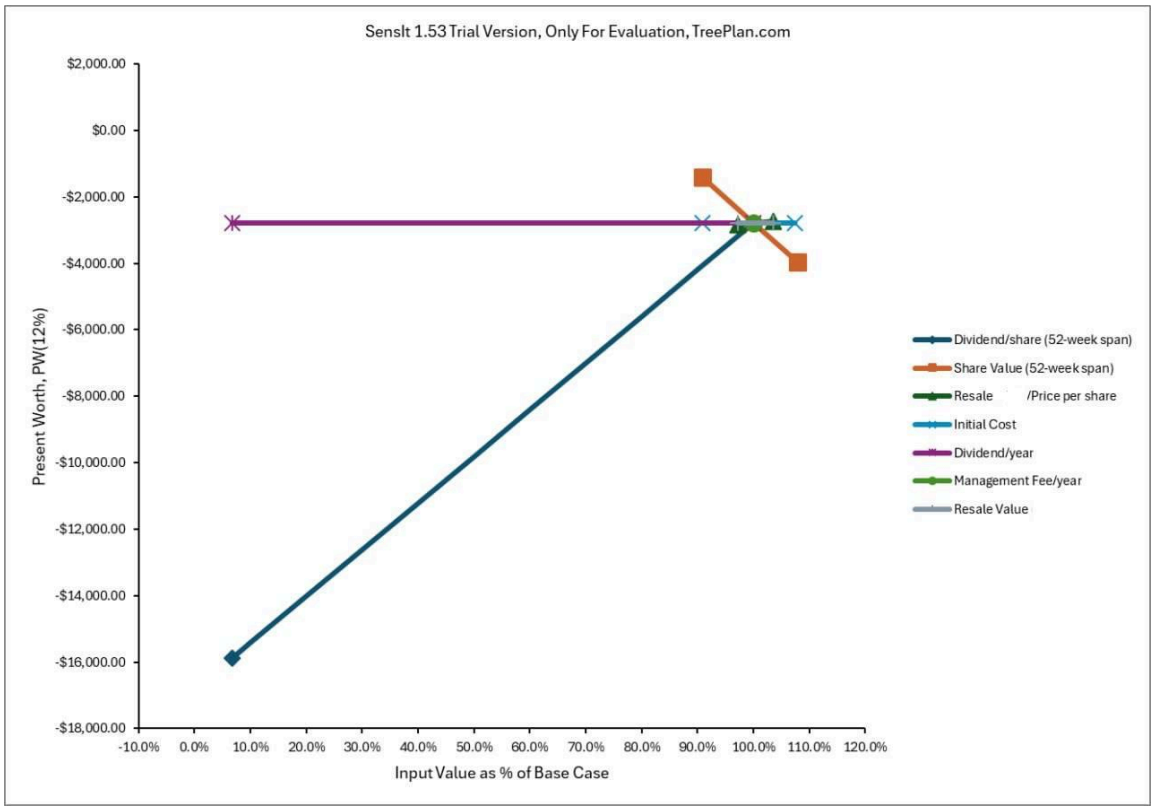
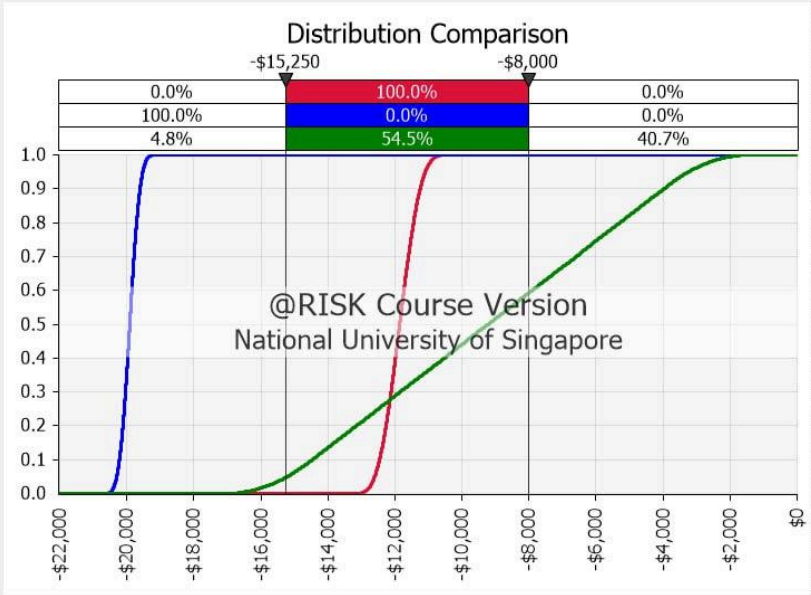


Figure 18: IAUF Spider Diagram

8. Probabilistic Risk Analysis



Statistics

	Present Wor...	Present Wor...	Present Wor...
Cell	Submariner...	Daytona_Si...	IAUF_Sim!C16
Minimum	-$13,227.37	-$20,683.51	-$17,052.35
Maximum	-$10,441.47	-$19,136.07	-$1,414.15
Mean	-$11,854.83	-$19,911.56	-$9,224.82
90% CI	± $3.38	± $1.73	± $28.33
Mode	-$11,850.58	-$19,920.18	-$12,050.87
Median	-$11,856.36	-$19,911.44	-$9,217.25
Std Dev	$459.06	$235.48	$3,851.41
Skewness	0.0252	-0.0015	-0.0023
Kurtosis	2.5098	2.7145	1.8810
Values	50000	50000	50000
Errors	0	0	0
Filtered	0	0	0
Left X	-$15,250	-$15,250	-$15,250
Left P	0.0%	100.0%	4.8%
Right X	-$8,000	-$8,000	-$8,000
Right P	100.0%	100.0%	59.3%
Dif. X	$7,250.00	$7,250.00	$7,250.00

Figure 19: Cumulative Distribution (PW) Probabilistic Risk Diagram

From *Figure 8*, we can observe:

1. General Observation:

- 1st order stochastic dominance present in the comparison between the IAUF vs. Daytona (green and blue lines) and Submariner vs. Daytona (red and blue lines). . The data suggests that investing in either IAUF or Submariner will potentially result in higher returns since $E(X)_{IAUF} > E(X)_{SUBMARINER} > E(X)_{DAYTONA}$.
- No first order stochastic dominance between IAUF and Submariner since the CDF graphs have an intersection (red and green lines).

2. In-depth analysis:

- No mean-variance dominance present when comparing between alternatives.
- Daytona is the most stable investment alternative since $Var(PW)_{DAYTONA} < Var(PW)_{SUBMARINER} < Var(PW)_{IAUF}$
- IAUF is the riskiest and highest profit investment.

From this observation, the better investment option is non-conclusive based on mean-variance criterion. The better investment option depends on the risk appetite that the investor holds.

1. High Risk Appetite:
   IAUF is the better option. IAUF yields higher returns, observed by its PW, with larger standard deviation and larger variance.
2. Medium Risk Appetite:
   Rolex Submariner is the better option. Rolex Submariner has an end value PW between IAUF and Daytona, it also has a variance value in the middle of the three options.
3. Low Risk Appetite:
   Daytona is the better option. With a low risk appetite, the investor prefers a stable investment over securing higher returns. Hence, Daytona gives the lowest PW return out of the three options, but it also has the lowest variance.

9. What-If Scenario Analysis

9.1 IAUF dividend growth by 0.1% per year.

Dividend rates were assumed to be fixed in our project. However, as dividends are based on the profits of the company, the company may have increased profits, and allocated higher dividends per year.

$$P = \frac{A_1[1-(1+i)^{-N}(1+f)^N]}{(i-f)}$$

Figure 20: Geometric series formula

Where i=0.12 (MARR), f=0.001(0.1%), N=20.

Dividend/Share	Low	Base	High
Y_0	$0.483	$7.17	$7.17
Y_{20}	$3.71	$55.10	$55.10

Table 1: Before and after dividend increment

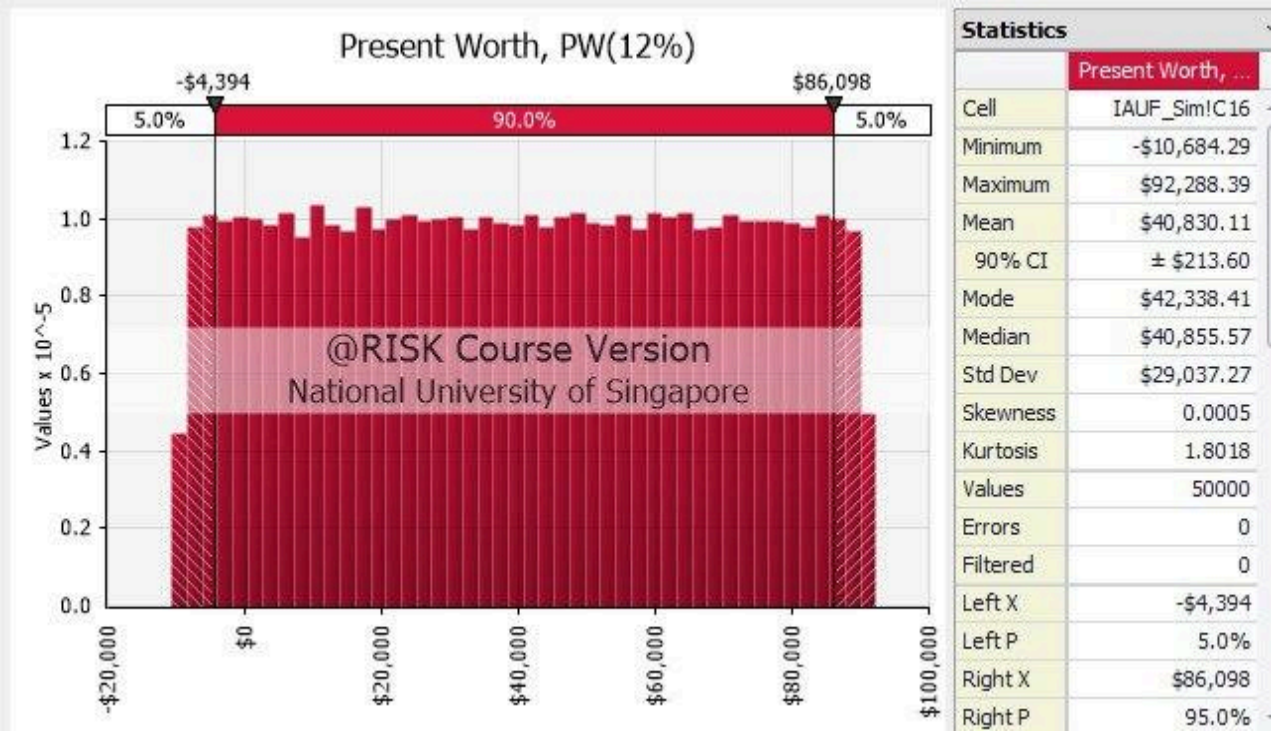


Figure 21: Newly generated PW(12%) graph based on adjusted dividend

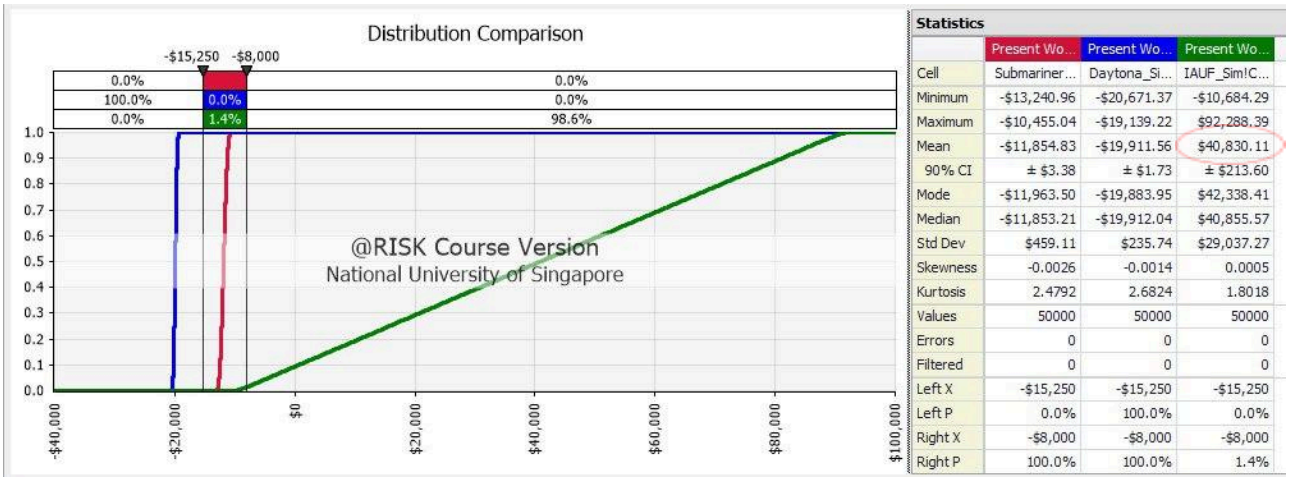


Figure 22: Cumulative distribution of scenario 1

As observed, the mean PW of IAUF soared from a maximum of -$9,224.82, as shown in Section 8: Probabilistic Risk Analysis, to $40,820.11.

This makes it a positive investment in the long run of the 20 year period since previously; all the three investments had negative values for their expected mean. By mean-variance dominance, $Var(PW)_{DAYTONA} < Var(PW)_{SUBMARINER} < Var(PW)_{IAUF}$ relationship and the mean relationship is $E(X)_{IAUF} > E(X)_{SUBMARINER} > E(X)_{DAYTONA}$ holds. However, the variance of IAUF increases along with its mean. This suggests the exponential 0.01% increase in dividends reflects on the $E(X)_{IAUF}$ and $Var(PW)_{IAUF}$ making it generate higher returns, harbouring more risk.

9.2 Black Swan event ~ Pandemic

Post Covid-19, Rolex watch resale prices on the Grey market dropped by approximately 31%. To simulate such an event, we will replicate the prices by simulating a 31% drop of the Rolex resale prices (Pau, 2023) across its base. Similarly, Gold ETF prices dropped by 4.8% post pandemic.

We assumed that this Pandemic affects the final, year 20, resale price. The base case used the values denoted in the Base Resale (LSTM) Prices, which was declared in Base-Value Data.

For both watches:

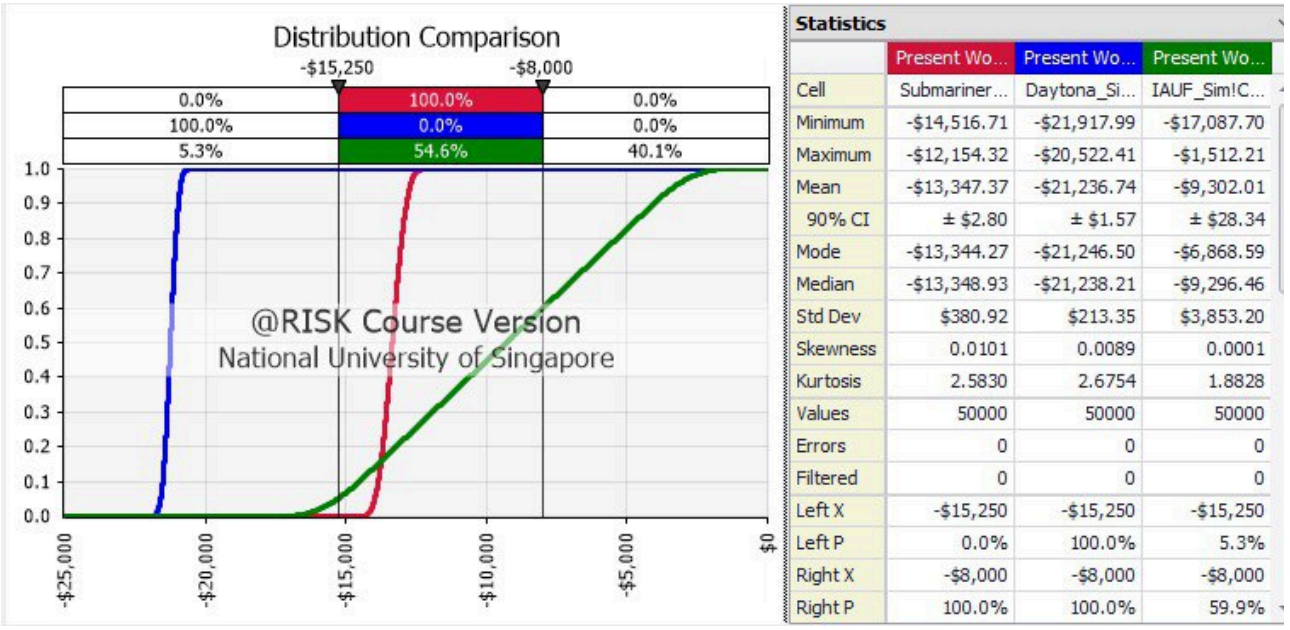
1) The Modified prices used a x0.69 factor on the base resale price. Representing a drop of 31%.

For the IAUF:

2) The Modified prices used a x0.952 factor on the base resale price. Representing a drop of 4.8%

Resale Prices	Low	Base	High
Gold IAUF			
Base Year 20	$15015.22	$15455.38	$16008.20
Modified Year 20	$14,294.49	$14713.52	$15,239.81
Rolex Daytona			
Base Year 20	$38492.24	$41718.77	$43979.39
Modified Year 20	$26559.65	$28785.95	$30345.78
Rolex Submariner			
Base Year 20	$39445.11	$46323.44	$53442.41
Modified Year 20	$27217.13	$31963.17	$36875.26

Table 2: Before and after cashflow with price depreciation



Statistics

	Present Wo...	Present Wo...	Present Wo...
Cell	Submariner...	Daytona_Si...	IAUF_Sim!C...
Minimum	-$14,516.71	-$21,917.99	-$17,087.70
Maximum	-$12,154.32	-$20,522.41	-$1,512.21
Mean	-$13,347.37	-$21,236.74	-$9,302.01
90% CI	± $2.80	± $1.57	± $28.34
Mode	-$13,344.27	-$21,246.50	-$6,868.59
Median	-$13,348.93	-$21,238.21	-$9,296.46
Std Dev	$380.92	$213.35	$3,853.20
Skewness	0.0101	0.0089	0.0001
Kurtosis	2.5830	2.6754	1.8828
Values	50000	50000	50000
Errors	0	0	0
Filtered	0	0	0
Left X	-$15,250	-$15,250	-$15,250
Left P	0.0%	100.0%	5.3%
Right X	-$8,000	-$8,000	-$8,000
Right P	100.0%	100.0%	59.9%

Figure 23: Cumulative distribution of scenario 2

The Cumulative Graph shows that all investments have a significantly lower PW after the Pandemic as the Expected Values shift left. Ultimately, the preferred alternative depends on the risk appetite of the investor. Should he have a higher risk tolerance, IAUF would be his preferred choice of investment when such a situation arises.

9.3 Rolex Models Discontinued

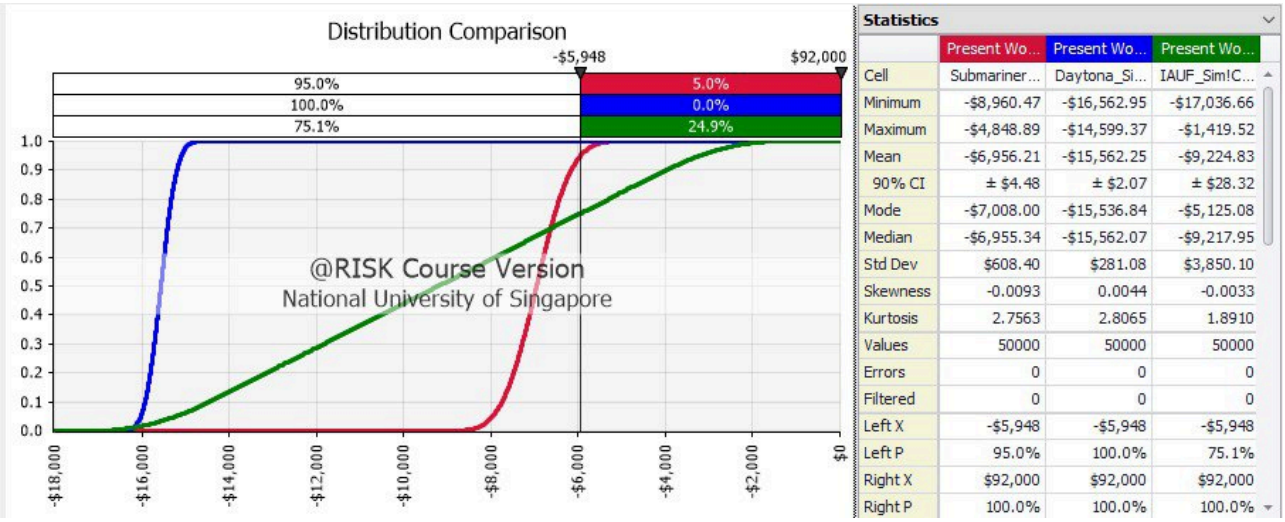
With both Rolex models discontinuing at year 0, the models will not be produced anymore leading to a shortage of such watches sold in the Grey Market. The expected resale prices of the watches will increase exponentially with an increment of 4%, represented by a 16% MARR for both watches,. as they will be considered antique goods due to its limited quantity and rarity. Instead of using the NLP model to predict the future values at the end of the study period, we use an MARR of 16% for both watch investments to assess such a situation.

Resale Price (Submariner)	Low	Base	High
Y_0	$39445.11	$46323.44	$53442.41
Y_{20}	$79577.91	$93454.48	$107816.53

Table 3:Year 1 and Year 20 values if Submariner discontinued

Resale Price (Daytona)	Low	Base	High
Y_0	$38492.24	$41718.77	$43979.39
Y_{20}	$77655.55	$84164.86	$88725.52

Table 4:Year 1 and Year 20 values if Daytona discontinued



Statistics

	Present Wo...	Present Wo...	Present Wo...
Cell	Submariner...	Daytona_Si...	IAUF_Sim!C...
Minimum	-$8,960.47	-$16,562.95	-$17,036.66
Maximum	-$4,848.89	-$14,599.37	-$1,419.52
Mean	-$6,956.21	-$15,562.25	-$9,224.83
90% CI	± $4.48	± $2.07	± $28.32
Mode	-$7,008.00	-$15,536.84	-$5,125.08
Median	-$6,955.34	-$15,562.07	-$9,217.95
Std Dev	$608.40	$281.08	$3,850.10
Skewness	-0.0093	0.0044	-0.0033
Kurtosis	2.7563	2.8065	1.8910
Values	50000	50000	50000
Errors	0	0	0
Filtered	0	0	0
Left X	-$5,948	-$5,948	-$5,948
Left P	95.0%	100.0%	75.1%
Right X	$92,000	$92,000	$92,000
Right P	100.0%	100.0%	100.0%

Figure 24: Cumulative distribution of scenario 3

When both watch models were discontinued at the start of the study period, we noticed that the expected PW of both watch models increased significantly. There is no stochastic dominance present amongst the investment choices but the clear choice of investment becomes the Rolex Submariner which yields the highest return and the 2nd safest investment alternative based on Mean-Variance analysis.

10. Further Analysis (Non-Financial Factors)

10.1 Geopolitical Tensions

Geopolitical tensions and events have the potential to induce notable fluctuations in commodity prices. In times of conflict, holding physical assets is not ideal. More people may look towards placing their cash into digital assets. This can bring up stock, ETFs prices as there is a “Safe-haven” for investors seeking stability. Watches are luxury goods, likewise they are physical assets that are not ideal to hold in a potential war build up. Hence, their market supply might face an increase from spike in sales, lowering the resale price due to saturation.

10.2 Environmental Factors

Natural disasters and the impacts of climate change can drastically influence the supply of commodities leading to price increases. Such events can damage infrastructure and cause disruptions in supply chains. This can affect the resale price of luxury goods, such as watches, since they would have lesser demand, resulting in a shift of market equilibrium.

10.3 Liquidity Risk

Not all ETFs have a large asset base or high trading volume. If an investor finds himself in a fund that has a large bid-ask spread (amount by which the ask price exceeds the bid price for an asset in the market) and low volume, they could run into problems with selling their shares. That pricing inefficiency could cost them more money and even greater losses.

Another aspect to consider is the inability to get out of a position quickly. Insufficient liquidity can delay the execution of a trade. This can potentially lead to critical errors for investors seeking to capitalise on arbitrage opportunities or strategically time their exit within a limited timeframe. **(Travillian, 2024)**

11. Recommendations and Conclusions

From the above analysis on our base-value data, NLP predicted future values, probabilistic analysis, and what-if analysis we can conclude that based on the base-data evaluation, investing in Gold-ETF is the better option as it yields the highest PW among all investment options. However, upon considering uncertainties and probabilistic analysis, the ‘best’ investment remains inconclusive and depends on the time horizon, risk appetite and general research conducted by the investor.. As financial and non-financial play a pivotal role in influencing the bullish or bearish nature of the market, it is important that an investor weighs-in these factors when making a decision.

To summarise, an investor would opt for IAUF should he have a higher risk tolerance, looking for higher potential returns. An investor can opt for the Rolex Submariner if he/she has a milder risk tolerance. Finally, the Rolex Daytona will be the preferred choice should he/she have a lower risk tolerance and favour a relatively stable return on investment.

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