Think gold is a safe haven? You might as well try the pokies

15 January, 2016 **Stephen Brown** **0 comments**

Recent and dramatic increases in the volatility of global equity markets have led to investors considering – once again – gold as a "safe haven" from storms in the markets. However, the turmoil in the markets stemming largely from events in China has not left commodities alone.

Gold along with other commodities has suffered, and gold futures reportedly fell for a **sixth straight quarter**, losing 10% in value for 2015 alone. Gold, it seems, is no longer the safe haven it once was.

While investors may continue to believe that gold has a safe haven status, leading to modest rises in the price of gold over the past few days, it is unclear whether gold has this status now, or indeed whether it ever has.

In a **recent paper** Professor Robert Barro of Harvard and his co-author Sanjay Misra point out that gold investments significantly underperformed the stock market on an annual basis by a factor of seven during the period 1821 to 2011 and all more recent sub periods with substantial volatility. Indeed, in the period 1975-2011 the return on the stock market (in constant dollar terms) has experienced almost twice the return on gold with only two thirds the volatility.

In another important **paper** published in 2013 Professor Campbell Harvey and his co-author Claude Erb asked whether gold could possibly be a "safe haven". They argued that if gold was a safe haven, its value should be stable when other asset markets falter. The data are not supportive.

Considering all of the month-to-month returns from 1975 to 2012, almost half the time the S&P 500 fell, gold also declined in value. This is not strong evidence that gold is a "safe haven". On the other hand, this suggests gold may have its place in a well diversified investment portfolio. Return on gold investments are virtually uncorrelated with returns on stock portfolios. But this is not by itself an argument to abandon the stock market in these troubled times and put money into gold. You can, on a systematic basis, put your money into the pokies and earn a return that has no

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correlation at all with the return on the ASX 100.

The real question is what is the return you can anticipate and whether this return is an adequate compensation for the risk you are asked to bear. Many investors look at the volatility in the equity markets and see an argument for putting their money in real value, in bricks and mortar. However, recent clearance rates and projected oversupply of CBD real estate gives such investors pause, particularly those investors who are heavily mortgaged.

The standard prescription for troubled times is to do nothing. It is very dangerous to your financial health to make major portfolio reallocations in times of market turmoil. If you are considering an investment in gold, why not consider the pokies?

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