Gold may not be as safe of a haven as you thought

Mark Hulbert, Special to USA TODAY *11:48 a.m. EDT July 21, 2016*

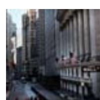
(Photo: AFP)

Investors should think twice before shifting a big portion of their stock or bond holdings into gold. The yellow metal's historical returns raise serious questions about its role in a well-diversified portfolio.

It's easy to see why investors are increasingly interested in gold, however. With the stock market's recent surge to new all-time highs, stock prices are now well into overvalued territory. The price-to-earnings ratio, one standard valuation measure, shows the S&P 500 index to be 56% more expensive than the long-term average.

Yet there's no reason to expect gold to do well just because stocks' prospects are mediocre. Consider all months since 1975 (when gold began trading freely in the U.S.) and stocks also fell: Gold rose in about half of those months and fell in the other half. Bonds, in contrast, rose in two-thirds of those months, which means they have been a better hedge against equity losses than gold.

Of course, bonds aren't very appealing these days either. The 10-year Treasury yield currently stands at 1.6%, very close to what the market is betting inflation will average over the next decade. So at current levels bonds promise merely to keep pace with inflation.



USA TODAY

Don't sell a dull market short

(http://www.usatoday.com/story/money/2016/07/11/stocks-trading-volume-wall-street-doldrums/86947342/)

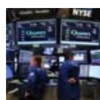
But history provides equally little assurance that gold will do well when bonds do poorly. In all months over the last four decades in which bonds fell, for example, gold fell as often as it rose — just as it did in the case of stocks. And the same was true for those months in which both stocks and gold fell.

Many favor gold as a hedge against a resurgence of inflation. But that also is a shaky foundation on which to bet a big portion of your assets, according to a study published by the National Bureau of Economic Research. That study (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2078535), co-authored by Campbell Harvey, a finance professor at Duke University, and Claude Erb, a former fixed-income and commodities portfolio manager for TCW Group, found that gold is a good inflation hedge only over very long periods — measured over many decades, if not centuries, in fact.

Over shorter periods of not just a few years but several decades, the researchers found, gold's inflation-adjusted price fluctuates just as wildly as does its nominal price. That wouldn't be the case, of course, if gold were a good shorter-term hedge against inflation. The investment consequence is that your performance when investing in gold will have little to do with the course of inflation.

Consider, for example, where gold would be trading today if its price were a function of just inflation. The researchers calculate that it would be around $835 per ounce, or $500 less than where it trades today.

To be sure, Harvey says, "you can make a good case to diversify your portfolio into real assets such as commodities and real estate. But," he asks, "why just gold in particular?" After all, he argues, the yellow metal is just one of many different real assets, and investing all your real-asset allocation in gold would be as foolish as investing all of your equity portfolio in just one stock.



USA TODAY

Fasten your seatbelts: No telling where markets will go in 2nd half

(http://www.usatoday.com/story/money/2016/07/03/fasten-your-seatbelts-theres-no-telling-where-markets-go-2nd-half/86547220/)

For that portion of your real-asset allocation that you do decide to invest in gold, perhaps the easiest way to do so is via an exchange-traded fund: The SPDR Gold Trust (GLD). This ETF, which you can invest in as easily as any stock, is designed to rise and fall in lockstep with the price of gold itself. Its expenses are 0.40% per year, or $40 per $10,000 invested.

ETFs are also a convenient way of gaining exposure to real assets generally. The largest ETF that invests in a broad basket of commodities is the PowerShares DB Commodity Index Tracking Fund (DBC), with an expense ratio of 0.85% per year.

Mark Hulbert, founder of the Hulbert Financial Digest, has been tracking investment advisers' performances for four decades. For more information, email him at mark@hulbertratings.com or go to www.hulbertratings.com.

Read or Share this story: http://usat.ly/2abImrX