



**Bram de Haas**

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# Why Even the Most Successful, Die-Hard Value Investor Should Hold Gold

A discussion of the benefits of investing in gold

October 24, 2017 | About: [WITE +0%](#) [SIVR +0%](#) [PALL +0%](#) [GLD +0%](#)

There are plenty of people who are able to live on their income and decide to invest all their savings in gold. I can appreciate the fact they expect the investment to keep up with inflation. As much as I do not agree with this approach, however, I find it preferable to putting 100% of your savings into a bank account with the intention of keeping it there for the long term.

Putting almost all of your assets into a single financial instrument is not a sensible investment strategy, in my opinion. Yet, it surprises me how many "gold bugs" are out there and how openly they broadcast their preference. Is not sharing your investment strategy self-defeating? If people know you are stacking gold, given human nature and our tendency to gossip, it might even detract from your (financial) safety.



Assuming you do not get robbed or keep gold in the bank, it does not necessarily make it a safe haven as it may not be accessible in the event of an emergency. Perhaps the most notorious example of a gold stash that did not deliver on its promise is the Hoxne Hoard; this Roman Empire-era gold stash was barely discovered in the 1990s.

- [WITE 30-Year Financial Data](#)
- [The intrinsic value of WITE](#)
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### Insurance / optionality

People have given emergency preparedness and catastrophic events a lot of thought. The

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### Performances of the stocks mentioned by Bram de Haas

Symbol	Company	Current Price	Change (%)	Gain (%)
GM	General Motors Co	\$ 43.37	-1.27 (-2.85%)	25.86%
RAD	Rite Aid Corp	\$ 1.61	0.04 (2.55%)	-59.45%
AAPL	Apple Inc	\$ 166.72	3.67 (2.25%)	17.19%
SHLD	Sears Holdings Corp	\$ 5.64	-0.11 (-1.91%)	-44.81%
CNX	Consol Energy Inc	\$ 16.54	0.22 (1.35%)	8.25%
CC	The Chemours Co	\$ 56.99	-0.24 (-0.42%)	42.4%
DB	Deutsche Bank AG	\$ 16.26	-0.06 (-0.37%)	-10.02%
SPY	SPDR S&P 500	\$ 256.75	-0.96 (-0.37%)	9.45%
JPM	JPMorgan Chase & Co	\$ 101.41	-0.36 (-0.35%)	16.56%

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online. While the chance you will ever need these items is low, their value is inestimable if a time comes when you do.

To relate this example to the investment world and our discussion of gold, I would suggest if the cost of disaster preparedness is insignificant but an eventual payoff is invaluable, it constitutes a reasonable investment.

**Back to gold**

Gold is the portfolio manager's disaster kit. According to GuruFocus data, [John Paulson \(Trades, Portfolio\)](#) has about 7% in the largest gold ETF, the **SPDR Gold Trust (GLD)**. [First Eagle Investment \(Trades, Portfolio\)](#) has about 1.5% in the same ETF. There are many others, but these are the long-term prolific holders.

Historically, gold has not always done well during periods of hyperinflation, such as in Brazil in 1980. However, gold's value is highly sensitive to hyperinflation once the odds of experiencing it are one in a billion or less, according to this [CFA paper](#). With these odds, the expected value of gold is \$72,970. In other words, even a small probability of hyperinflation has a big impact on the price of gold.

It is possible the gold bugs are correct. A portfolio of gold could greatly exceed the value of a portfolio of stocks if the odds of hyperinflation were far greater than one in a billion. By the same token, it would be far more common for them to underperform. Either way, there is no definite way to know.

In his paper, economist Campbell R. Harvey supports holding at least some gold as part of a broad basket of commodities. Using a scenario where gold's value increases a hundred times, just having a small amount will preserve your buying power. In more common scenarios where gold decreases or stagnates, however, there is no downside.

This I know for sure: commodity ETFs based on futures will chip away at your money due to associated roll costs. I prefer holding physical commodities, but I caution against agricultural commodities. I will write more on this some other time. Unfortunately, even the physical ETFs suffer from management fees, which is why storing a moderate amount at your home is sometimes better. If you do not tell anyone, that is.

It is easy to stash some precious metals in your basement or under your bed, but you simply cannot do that with common metals without racking up huge warehousing expenses.

Consider instead commodity-backed ETFs which hold the physical commodity, so it is more efficient than stashing it yourself. ETFDB.com notes these ETFs are all physically backed options:

**ETFs White Metals Basket Trust (WITE)**, **ETFs Physical Silver Shares Trust (SIVR)**, **ETFs Physical Platinum Shares (PALL)** and SPDR Gold Shares ETF.

Since gold and gold investments are topics of enduring interest, it is worth taking a fresh look occasionally.

Disclosure: Long IAU (a gold ETF). In addition, I own some micro-cap mining companies and royalty companies operating in the precious metal space.

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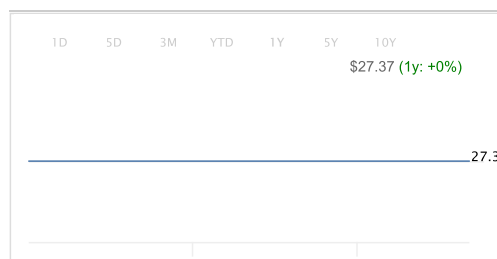
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**WITE Price Chart**



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