MarketWatch

Why gold isn't the safe haven it's cracked up to be

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Published: Apr 18, 2017 8:09 a.m. ET

U.S. Treasurys are the best bet for your portfolio in a global crisis

AFP/Getty Images

How much of gold's recent strength is due to geopolitical worries about Syria and North Korea? Surprisingly little, as it turns out.

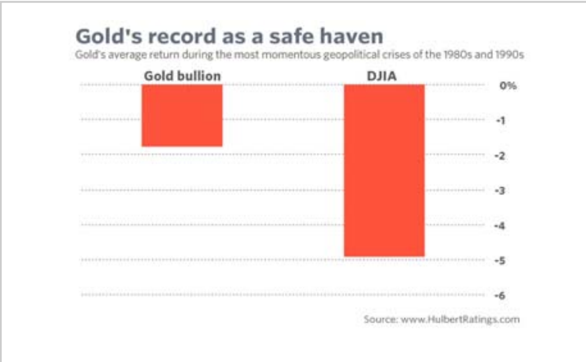
You therefore may want to think again if you are betting on gold GCM7, -0.37% as a hedge against an escalation of geopolitical tensions. I know this advice runs counter to the conventional wisdom that gold is a safe haven, much in the same way that U.S. Treasurys reliably rally whenever there is trouble anywhere in the world. But history does not support that same conventional wisdom about gold.

Richard Thaler: Here's the best investing strategy

(1:31)
Professor Richard Thaler, an expert in behavioral economics, talked to MarketWatch about his 'lazy' investing strategy that allows investors to maximize their returns while doing very little.

Consider how gold performed during the most momentous geopolitical events of the 1980s and 1990s. I compiled a list of these events from two sources. The first is a study that appeared in the Journal of Portfolio Management in 1989, written by economics professors David Cutler, Lawrence Summers, and James Poterba (Poterba is at MIT; Cutler and Summers are at Harvard University). Their study focused on the most momentous non-economic events in U.S. history. The second is a list of crisis events compiled by Ned Davis Research. (I didn't extend my list to prior decades because it was only in the mid 1970s that gold started to freely trade in the U.S.)

During the 18 crises on my list over those two decades, gold bullion fell during 11 of them — or 61% of the time. Its average return across all 18 was a loss of 1.8%. About the only consolation a gold investor can draw from these results is that gold didn't perform as poorly as the Dow Jones Industrial Average DJIA, -0.49% , which fell an average of 4.9% during those same crises. (See chart, below.)



This result is broadly consistent with what was found in a National Bureau of Economic Research study several years ago by Duke University professor Campbell Harvey and Claude Erb, a former commodities and fixed-income manager at TCW Group. Rather than try to independently determine a list of the worst geopolitical crises, they used the S&P 500 SPX, -0.31% as their gauge: If the index fell by a lot, it must be indicative of some sort of trouble.

The researchers found that gold fell almost as often as it gained during those months of big S&P 500 losses. Specifically, they found that gold fell during 47% of the months when the S&P experienced those declines, and rose 53% of the time.

Bottom line: If you want a more reliable safe haven asset, your best bet is U.S. Treasurys. If you want to continue betting on gold, you should find a different rationale than its allegedly being a safe haven.

For more information, including descriptions of the Hulbert Sentiment Indices, go to www.hulbertratings.com or email mark@hulbertratings.com

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