Gold and bitcoin are weird.

Neither is especially useful in the here and now in any practical sense. Bitcoin’s promise as a deregulated digital currency remains just that—a promise. And nobody carries
While both are “mined,” their only real-world or virtual applications seem to be as tools of pure speculation—or as safe-haven assets. Whenever the world goes half a bubble off plumb, people flock to gold. More and more, they also seem to flock to bitcoin.

The price of an ounce of gold and of a single bitcoin bounced dramatically after governments and central banks around the world, but especially in the United States, pumped money into consumers’s wallets and banks’ coffers as Covid-19 caused an unprecedented global recession.

Many investors are unsure what place, if any, either asset has in their portfolio. Here’s what you need to know to understand how bitcoin and gold might fit into your investment strategy.

**Gold Isn’t Much Of An Inflation Hedge**

First, the bottom line: You can add gold to a well-diversified portfolio of stocks and bonds, but experts believe it shouldn’t amount to more than 10% of your holdings.

That said, it’s important to know why you’re adding gold to your holdings. If it’s to fend off inflation, think again. While research shows the value of gold remains constant over a very, very long period—like a millennium or two—it can’t really be counted on as a store of value over a more modest time period. It’s simply much too volatile.

In fact, gold is as volatile as the S&P 500, says Duke professor and senior advisor to Research Affiliates Campbell Harvey, and its returns don’t generally beat returns from the broader stock market over the long term.

**So Why Should You Invest in Gold?**

Gold is better understood as a safe haven that investors embrace when times get soupy. For instance, the S&P GSCI Gold Index gained 7.2% in the last three months of 2018, according to Morningstar data while the stock market declined nearly 14%.

Even during the most recent bear market when equities dropped by 33%, the gold index declined by only 2%. The price of gold then shot up over the next few months to
But gold volatility can go in both directions. Almost a third of fund managers polled in the August 2020 Bank of America Global Fund Manager Survey stated that they believed that gold was overvalued—the highest this sentiment has been since 2011, and up from 0% the month prior.

To put that in context, SPDR Gold Shares, a popular gold exchange-traded fund (ETF), gained 9.6% in 2011 and then 6.6% in 2012, before losing 28.3% in 2013 and then delivering negative returns the following two years.

Gold, then, should be treated as hot sauce rather than the main course in your investment portfolio.

**Why Invest in Bitcoin?**

Bitcoin is an electronic payment system that exists beyond the control of any central government. While people have been using gold as a medium of exchange for 5,000 year, since ancient Mesopotamia if not earlier, bitcoin is a much more recent affair. It was invented by a person, or people, known as Satoshi Nakamoto, in 2009. As a fledgling endeavor, it has endured wild price swings during its almost decade-long tenure.

The cryptocurrency rose to nearly $20,000 per bitcoin by the end of 2017, only to drop to less than $4,000 by the end of 2018. More recently, the cryptocurrency bounced around right along with stocks and gold. Its value dropped about in half to roughly $5,000 from the middle of February to mid-March, when investors were first coming to grips with the effects of coronavirus. But it jumped to nearly $11,500 five months later.

These dramatic price swings tend to be greater than what you even see with gold, and so the digital currency cannot be viewed as a way to store value, as some like to claim—at least not yet.

That said, “the entire crypto ecosystem has matured substantially,” said Stephen McKeon, associate professor of finance at the University of Oregon. “The question has moved from ‘will this survive’ to ‘how big will this get?’”
like bonds and dividend-paying stocks.

This may induce a bandwagon effect, wherein each new investor keeps the price of a safe-haven asset rising, although they buy at an increasingly high cost. The danger is that some new event or development breaks the momentum and investors bail out. Then you have the dubious honor of buying high and selling low.

**Differences Between Gold and Bitcoin**

Gold and bitcoin represent different phases of how people think about “money.” Gold was a currency for thousands of years, and it retains value in part by the psychological and historical attachment investors have to it. Bitcoin, along with blockchain technology, hopes to one day replace government currencies as the means by which people exchange payments.

As an investment, gold is a more mature asset. As such, it tends to be easier to own. For instance, you can buy SPDR Gold Shares, which has an expense ratio of 0.40%, through your brokerage account. There’s really no need to commit yourself to owning physical gold, with its high costs of secure storage.

With Bitcoin, the most common way to invest is to open an account on a cryptocurrency specific exchange, like Coinbase, and actually exchange your dollars for the digital currency. You’ll then need to hold it in a digital cryptocurrency wallet.

More broadly, investing in gold reaffirms your belief in the current international financial system, whereas bitcoin is a bet that a more radical alternative is coming.

“The case for crypto is that it is poised to disrupt a large segment of the financial services industry,” said McKeon. “Decentralized finance applications have now replicated many traditional business lines such as trading, lending, and insurance.”

**Should You Invest in Gold or Bitcoin?**

You don’t need to invest in either gold or bitcoin to have a well-diversified portfolio. Most investors would do well to ignore their allure and instead own a combination of a
invest with each based on your age and risk tolerance.

If you want to make a speculative bet on either gold or bitcoin, do it with a small, single-digit, portion of your assets. There isn’t sufficient evidence to suggest either will deliver more consistent returns than a traditional strategy emphasizing stocks and bonds.

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**Why Do Investors Buy Bitcoin and Gold?**

Both gold and bitcoin tend to attract investors when the Federal Reserve, and other central banks around the world, step in to bail out struggling economies. The reasoning works something like this:

Governments reduce the value of their fiat currencies (currencies backed by the full faith and credit of a nation or group of nations) when they print lots of money and drop interest rates close to zero. Investors respond by putting money into currencies not controlled by central governments.
Taylor is an award-winning journalist who has covered a range of personal finance topics in the New York Times, Newsweek, Fortune, Money magazine, Bloomberg, and NPR. He lives in Dripping Springs, TX with his wife and kids and welcomes bbq tips.
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