Investing in gold in times of uncertainty: Is it worth doing it?

By RICHARD HARTUNG
Gold prices rose 18 per cent in 2019, reaching more than US$1,550 (S$2,170) in February 2020, and optimists forecast that prices could rise as high as US$1,900 given the economic uncertainty.

A key question that an investor may ask is whether to buy gold as an investment now, or at all.

**WHY INVEST IN GOLD**
Whereas stock or property prices may decline during a recession, for example, gold may rise during times of economic uncertainty.

Professor Jeremy Siegel from the Wharton School at the University of Pennsylvania said that in a period of hyperinflation when currency becomes virtually worthless or in a time of great distrust in the economy or banking system, gold may be a safe haven.

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That said, Prof Siegel also call it “a very expensive insurance policy”.

Fellow Wharton professor Kent Smetters believes that investors have better ways to hedge against inflation. “I would never recommend a specific investment in gold,” he said.

On the other hand, as part of a diversified investment portfolio, gold can provide positive returns when other parts of your portfolio are struggling.

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REMARKS ON GOLD INVESTMENT

A variety of studies and research confirm both the volatility of gold and some benefits in uncertain economic environments.

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Looking back over a long stretch of history, Professor Siegel said that the equivalent of US$1 acquired in 1802 would have been worth just 5.2 US cents at the end of 2011, while gold would have grown to US$4.50.

Over that period, however, the same dollar would have grown to US$1,632 if it were put into long-term bonds and to US$706,199 if it were put into a basket of stocks reflecting the broad market.

In the nearer-term past, Wharton business school found that the price of gold soared from just under US$300 an ounce (about 28g) in early 2001 to nearly US$1,900 in mid-2011.

It then trended downwards, to about US$1,100, over the next four years.

In 2013 alone, the price dropped about 18 per cent, while the S&P 500 stock market index gained about 18 per cent.

And earlier, gold peaked just below US$700 an ounce in 1980, then fell and did not regain that level for 27 years.

More recently, investment advisory firm The Motley Fool found that the annualised return on gold was a loss of around 4 per cent over the five-year period through March 2018.

However, “there is a reasonable probability that gold will provide a gain of between 12 per cent and a loss of 20 per cent”, it said.
A study by Dublin City University professor Dink Baar and Trinity College Dublin professor Brian Lucey found that gold is a hedge against stocks and a safe haven in extreme stock market conditions.

However, “gold only functions as a safe haven for a limited time, around 15 trading days. In the longer run, gold is not a safe haven and investors who hold gold more than 15 trading days after an extreme negative shock lose money”, they said.

Additionally, a study for the National Bureau of Economic Research in the US conducted by Duke University professor Campbell Harvey and asset management firm TCW Group manager Claude Erb found that gold is a decent inflation hedge only over extremely long periods, measured in many decades.

**HOW TO INVEST AND HOW MUCH TO INVEST**

While gold may present good opportunities for traders who buy when it plummets and sell when it rises, buying gold as a long-term holding may be less attractive than other investments. Many investors may find returns over the longer term flat or negative.

If you still do want to buy gold as an investment to diversify your portfolio or have a long-term hedge against inflation, though, experts recommend putting no more than 10 per cent of your assets into gold.

If you want to buy gold here, it’s easy to do.

One way is to open an account at a bank, such as a Gold Savings Account at United Overseas Bank (UOB).

The bank will hold the gold, and you can sell it anytime.

You can also buy a gold certificate at some banks, which can be exchanged for cash or physical gold,
While you can buy gold bars, the fees are high and you will have costs for storage as well as insurance.

And buying jewellery is the usually the worst way to acquire gold as an investment, since the mark-up is high, sometimes exceeding 100 per cent, and selling it is difficult.

If you are concerned about volatility in financial markets due to the current uncertainties, then, a little gold in your portfolio may provide some comfort.

As Prof Siegel and others showed, however, other investments may provide better long-term returns.