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WEALTH MANAGEMENT

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Monthly Insight

Inflation Outlook: Is It Time to Buy Gold?

Though the latest readings on inflation were somewhat more encouraging than in previous months, resulting in a stock market rally that allowed the major indexes to break record losing streaks, many investors are still concerned about the uncertainties in the economy. And, as is usual when such concerns abound, more and more investors are wondering if they should increase their holdings of gold. After all, for decades, buying gold or gold-based funds has been the classic hedge for investors who either fear worsening inflation or extreme disruption in the markets or the economy. And during the current challenges posed by rising inflation and geopolitical turmoil, we have witnessed a strong reminder of this strategy, as the world spot price for gold went from $1,796/oz. at the end of January to a high of $2,044 in early March, before gradually falling back to its current level of $1,853 as this is written: about 3% above its low for 2022.

Historically, the less you trust the stability of the economic system, the more of a lure there is to put more of your money in something tangible with a gleaming luster. The theory is that you can simply put your net worth in a very strongly reinforced pocket and ride out the bad times—although, of course, almost all investors actually buy gold through funds or ETFs, which would theoretically collapse in that same disastrous scenarios.

In more common scenarios, gold should become more valuable in times of high inflation, in periods when the dollar is losing value, or when the government is running high federal deficits, thereby cheapening the value of the dollar. Gold should also do well when the global economy is roiled by something like the current coronavirus lockdown in China or the war in Ukraine.

But is gold really effective as an inflation hedge? For one thing, gold is subject to market whims; for example, its price fell 45% in the relatively calm economic climate between 2011 and 2015, possibly because investors viewed the mostly positive environment for stocks as weakening the case for buying gold. Further, some market strategists remind us that in January 1980, the precious metal closed at a then-record $850 an ounce. In today's dollars, that would represent about $2,982 an ounce—well above today's sub-$2,000 price—which means, of course, that after inflation, anyone who invested in gold at its historical high and held it until today experienced considerable losses.

By contrast, in January 1980 the S&P 500 closed the month at $110.90. At the most recent close—including its relatively poor returns for the year thus far—it stands at $4,158.24. An investor could have purchased seven shares of an S&P 500 index fund in January 1980 for that same $850, and today, those seven shares would be worth more than $20,000. (Remember, of course, that past performance is no guarantee of future results; you should consult your own tax, legal, and financial advisors before engaging in any transaction.)

It would seem that the effectiveness of gold as an inflation hedge could be subject to some doubt, based on recent evidence to the contrary. Additionally, some analysts believe that based on what is currently known, any additional runup in gold prices may be short-lived, and prices may actually begin to decline, later in the year. This could be another indication that the status of gold as an inflation hedge may be losing some of its historical luster.

Can gold be an important part of your portfolio? Certainly, as long as you have carefully evaluated its characteristics and considered the opportunity cost of holding gold as opposed to other asset types. For one thing, allocating a portion of the portfolio to gold can be a way of achieving better diversification, since the price of gold tends to not be strongly linked to the price of assets like stocks and bonds. In fact, we advise clients who are interested in owning gold to take physical delivery, and we work with them to facilitate the process.

But gold, like every other asset, has strengths and weaknesses that should be carefully considered in light of the investor's long-term goals, risk tolerance, diversification profile, and stage in life. According to the AARP, investors considering the purchase of gold often make some common mistakes. One is to over-purchase, based on fears stoked by gold marketers. When investors hear phrases like "inflation at an all-time high" and "unsettling world events," they can often conclude that a hefty holding of gold will save them from future uncertainties. Of course, history and financial research have shown that no single asset type is the be-all and end-all; diversification is and will probably always be the investor's best friend. In fact, many experts recommend keeping around 10% of the total portfolio in gold or gold-based assets.

Another mistake that investors make is paying too much, especially when they are taking physical delivery of gold or gold coins. There can be significant fees attached to physical gold, including the cost of storage and protection, that directly impact the investor's rate of return on the asset. (And by the way, if you plan to store physical gold at home, make sure you're aware of the risks—which include much more than theft.) For our clients who are taking physical delivery, we provide careful guidance to make sure all costs are considered and to obtain the most favorable pricing.

At Empyrion Wealth Management, our guidance of clients' investments is driven by our commitment to offering only the most reliable current information and evidence-based market research. If you have questions or concerns about the place of gold or any other investment in your portfolio, we can help you get the answers you need. To learn more about our current advice on inflation and your portfolio, click here to read our article, "Series I Bond Update: Now Better Than Ever at 9.62%."

Stay Diversified, Stay YOUR Course!

SOCIAL MEDIA DIGEST

In case you missed them, here is a roundup of my latest posts on social media:

Retirement investors have an obvious need for current income. But, especially with Americans living longer and longer in retirement, they also need to protect their assets from

the long-term ravages of inflation.

Pursuing a career change can be fulfilling and exciting, filled with new opportunities for professional growth and success. But before you take the leap, it's essential to take appropriate, proactive steps to ensure your financial house is in order.

Does the financial services industry have a diversity problem? In this FA Magazine article, myself and other financial advisory professionals weigh in on the problems we see, as well as the key benefits diversity can bring to the table.

For thriving retirees and other investors, there are a few key questions that most ask themselves at some point along the way. Here are ten important questions that every investor should carefully consider.

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"We understand that every person we serve has distinct values and ambitions, and they each need their own plan for wealth management."