

A Golden Asset

Why you should consider gold and gold-related investments in your portfolio

Of all the major asset classes – stocks, corporate bonds, industrial commodities and others – gold was one of last year’s better performers. Since 2002, gold prices have significantly outperformed the market indexes. In 2008, the price of an ounce of gold bullion posted a return of about 4.3 percent in U.S. dollar terms.

As an asset class, gold is unique. Gold is durable and highly liquid, and the economic forces that determine the price of the metal are different from the factors that affect the prices of many other asset classes such as equities, bonds or real estate.

As a potential safe haven from the uncertainty of economic events, political unrest and high inflation, a modest allocation of gold offers investors an attractive opportunity to diversify their portfolios – potentially reducing overall portfolio risk. In addition, unlike other commodities, gold is one of the few asset classes that may perform well in a *deflationary* environment.

Paper fading

Today, the case for gold and gold-related investment begins with a weakness in paper



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currencies. Central Banks across the globe have been printing massive amounts of money to try to artificially stabilize their economies. In addition, governments are engaging in a competitive devaluation of their currencies as an attempt to prevent a deeper economic recession. Europe, China, and others are rolling out their own incentive and bailout plans. In all likelihood, this is setting the stage for tremendous inflationary pressures. With few (if any) currencies maintaining their value, investors and sovereign nations may soon turn to gold as a preferred reserve currency.

The opposing view is that the inflation argument hasn’t been seen yet in government data, and once the economy catches gear, the Federal Reserve will pull the money back out of the economy, negating any inflationary pressures. Don’t hold your breath.

Portfolio diversification is one of the cornerstones of modern finance theory. It is essential that investors look at their portfolios holistically. Used correctly and in the proper percentages, gold and gold-related investments can be highly effective components of a properly diversified approach. ■

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