INVESTOR'S EDGE

# Interested in buying gold? Keep it simple.

## Buy a fund, not coins, to diversify your portfolio

*"The Times They Are A-Changin'."*
— Bob Dylan

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I've never been a big fan of investing in gold. Instead, I invest in great companies with great managements selling at attractive prices. This has served me, my clients, and readers of this column very well.

Yet, beneath the breathtaking stock market recovery from the lows in March, the price of gold has also been on the move, up about 25% since then. And this gold rally may have significant implications for our readers' investment portfolios and asset allocation.

First, it is important to remember that traditionally gold has been seen as a hedge against "bad events" in the economy or financial markets. It especially tends to perform well during periods of inflation, which occur when too much money has been printed, chasing too few goods. Gold also becomes popular when the U.S. dollar, the world's reserve currency, declines.

So, "Gold Bugs," a term used for individuals that are big believers in gold as an investment, have historically been bearish on the U.S. economy and stock market.

Obviously, that has not been a very good bet.

Furthermore, when you think of it, gold really has no intrinsic value and pays no dividend. Compared with say, Apple, which has real products used by millions of people worldwide, gold is essentially used in jewelry, whose impact is marginal on the price. So, with low

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inflation over the last 40 years, it is not surprising that gold has been a dud compared with U.S. equities.

Currently, Treasury bonds, widely seen as the ultimate safe haven asset, yield a paltry 0.58% per year — for 10 years no less! Furthermore, for the first six months of 2020, the federal deficit has increased by a stunning $3 trillion. Generally, high deficits and a falling currency are correlated with rising inflation, a boon for gold prices.

Global investors are beginning to take notice of our profligate spending, and despite the severe recession, the U.S. dollar, a supposed safe haven, is down 35% year to date.

So, because Treasury bonds now offer basically no interest income, and paper money is being printed at record levels, global investors are beginning to see gold as an alternative.

For the record, my overall assessment is that a modest investment in gold can be a reasonable portfolio diversifier. So, what is the best way to get exposure?

Well, you will see a lot of commercials on television that market buying gold coins directly. In fact, Gold Bugs frequently actually buy and store their gold coins at a safety box in their home, presumably to be used during some sort of crisis. Giving gold coins, however, to your friendly Wegmans cashier probably won't buy you much toilet paper, or anything else, for that matter.

Instead, you can buy an exchange traded fund that tracks the price of gold, or a gold mining fund, which actually invests in companies that extracts gold from mines. The gold ETF I recommend is the iShares Gold Trust ETF (ticker symbol: IAU), which sells around $17 a share and is actually up 27% year to date. The VanEck Vectors Gold Miners ETF (ticker symbol: GDX) is the gold miners ETF, which is up about 40% this year.

Gold miners do better during periods of rising gold prices because they can add to the gold supply. It is also more volatile and drops faster should gold prices retreat.

Personally, if you are inclined to invest in gold, I would keep it simple and buy the basic IAU exchange traded fund.

Gold's shine as an investment is also being illuminated by our current COVID-19 pandemic, which has helped drive up the price of gold because of fears of government ordered lockdowns. Rising geopolitical tensions between the United States and China is also a factor in gold's recent rise.

Ultimately though, gold investors believe that global central bank stimulus will stoke inflation and erode the purchasing power of paper money.

Please understand, my friends, that buying gold is no substitute for the bond positions in your portfolio. It is simply a possible portfolio diversifier to hedge against unforeseen "black swan" events. The price of gold incurs more volatility than most bonds, and it is a bit of a fickle trade. Therefore, if you choose to take a position, it should probably be kept to no more than 3% to 4% of your portfolio.

In the current economic and political climate, gold can have a place in a risk adverse portfolio.

Just don't fall in love with its shine.

*Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com*

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