Don’t Get Bitten By the Gold Bug

It is hard not to watch the television or listen to the radio airwaves today without hearing how all of us need to buy gold. Most of the time, the message is you need to buy gold or precious metals in order to keep your family safe from the “thugs” on Wall Street. The companies that are in the gold and precious metals business love to create fear. They use their consistent gloom and doom outlook for the world economies as a scare tactic to increase demand. The last time the gold industry ramped up advertising to the max was at the height of the 2008 financial crises. Like clockwork, the herd of worrisome investors fled to the gold market, helping to increase the price of gold over the next several years. Once everyone started to see the financial markets rebound (as they do after each crises), the always late and worrisome herd of investors fled back to stock market. From August 2011 to November 2015, the price of gold crashed down by 42%. Gold can temporarily shine in the middle of a financial crisis, however, as a short- or long-term investment, I cannot and do not ever recommend it.

Smart investors look at a temporary financial crises as an opportunity to buy good quality companies at a very cheap price. Let’s look at how gold has done compared to the S&P 500 over the past 30 years:

Going back thirty years to June of 1986, gold was about $385 per ounce. Today, in June of 2016, gold is listed at $1,260 per ounce. That’s about a 4% annual return with periods of high volatility. When you adjust for inflation this comes out to about 1.8% real return. During this same time period, the S&P 500 went from $250.84 to $2,112.13. That’s about a 7.36% annual return before inflation. The risk of investing in gold is not worth the return. I will continue to recommend investing in stocks over the long-term with bonds to soften the ups and downs.

<http://www.macrotrends.net/1333/historical-gold-prices-100-year-chart> (June 2016)

This month marks my 19th year of being in the financial services business. I have clients who are in their eighties and nineties that are beginning to pass down their assets to the next generation, and so far, I haven’t found a single client that wished he or she had owned more gold to pass on to their kin.

Sincerely,

Andrew D. Wade, CFP®

President