INVESTING IN GOLD IN UNCERTAIN TIMES

Of all the precious metals, gold is the most popular as an investment. However, it is extremely scarce. Above ground stocks are estimated to be over 180,000 metric tons which, if distributed equally to everyone in the world, would equate to less than 1-oz per person¹.

In turbulent times, such as geopolitical upheavals, preserving capital can be an even more important concern than growing capital. This historically safe haven asset usually becomes even more popular and gold prices tend to rise, as it can hold its worth over the long term.

WHY SHOULD INVESTORS CONSIDER AN EXPOSURE TO GOLD?

+ Gold is a potential diversifier to equities and bond portfolios due to a low correlation to the economy and other financial assets
+ Serves as a store of value to help preserve purchasing power over time
+ Reduced performance drawdowns during equity market volatility
+ Hedge against extreme events and market turmoil

Figure 1 shows the correlation of gold and equity prices

Gold prices tend to rise in **low interest rate environments**, often because of the associated fear that low rates are driven by expansion of the money supply of other currencies. Higher inflation also tends to support gold prices as investors seek a hard asset when the value of other assets is eroded by inflation.

In general, gold acts as a **defensive asset**, in that it helps with downside protection of a portfolio of assets. Market turbulence that often sends equity prices lower tends to send gold prices higher.

Another instance when the gold price tends to rise is during **low real interest rates** and **high monetary expansion** periods, as they are often associated with currency debasement and systemic financial failures. The gold price peaked at US$1,900/oz in September 2011 as successive Euro leader summits, bailouts and bond stability funds failed to staunch both sovereign debt and banking sector solvency concerns in Europe.
Since that peak, gold fell 44% to the end of 2015 as the US Dollar strengthened and real US interest rates rose with the economy showing signs of improvement. In 2016 gold prices rose once again as US interest rates did not rise as much as initially anticipated and a number of political shocks led investors to access this popular safe haven asset. Gold prices fell once again the fourth quarter of 2016, as investors grew optimistic about pro-growth economic policies that were promised by the new US President. However, setbacks in designing and implementing policies and periodic geopolitical events had seen gold prices rise in 2017 and 2018.

**How can investors access gold?**

There are a number of ways to add gold to a portfolio. Gold can be held physically; via exchange traded products (ETPs), many of which are physically backed by gold; by using sophisticated derivatives such as gold futures; or by holding gold mining equities, which are affected by gold prices.

Find out more information through [etfs.wisdomtree.eu](http://etfs.wisdomtree.eu) and [etpedia.com](http://etpedia.com).
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