



Buy Gold?

Dear Dr. Per Cap:

The price of gold is soaring. Is it a smart investment like stocks, bonds, and other assets you write about?

Signed, Golden Girl

Dear Golden Girl

Gold has enjoyed quite a run in 2020 trading at record highs – over \$2,000 an ounce in early August. However, the precious yellow metal is a tricky investment because it reacts differently to economic and market conditions than other assets. A first step is to learn why an investor might choose to buy gold.

Traditionally investors buy gold to offset or hedge against inflation and other risks. For over 6,000 years gold has been a store of wealth and a safe haven during times of turmoil, crisis, and uncertainty. Wars, natural disasters, and you guessed it –pandemics can all cause the price of gold to shoot the moon. This means investors buy gold when times are tough to make up for more common investments like stocks and bonds that might lose value.

We have a mix of conditions that are currently driving gold prices – a dreary outlook for the global economy, rock bottom interest rates, tension between the U.S. and China, a weak dollar, the continued threat of the COVID-19 pandemic, and speculators looking to make a quick buck.

But the thing to understand is that when you buy gold you're essentially betting against the U.S. economy. This is something a lot of folks don't understand when they get excited to see gold prices soar.

Another issue to consider before buying gold is that owning it is kind of a hassle. Unlike stocks, bonds, and bank accounts gold is a physical asset that needs to be safeguarded. A safe deposit box is one option. A home safe is another; however, most homeowner's insurance policies provide only a small amount of coverage for cash, coins, and gold or silver bullion. Some investors might also pay to store their gold at a precious metal depository.

You can also purchase an exchange traded fund that is backed by gold. This is a way to enjoy the upside of investing in gold without the risk and hassle of owning it physically. In recent years more investors

are going this route. But it's certainly not as exciting as holding a glimmering American Buffalo, a magnificent 24 karat gold bullion coin minted by the U.S. government, in the palm of your hand.

I won't tell you not to invest in gold. However, make sure you understand the risks. It's also a good idea to never have more than about 5% of your entire investment portfolio in gold. Stick with less volatile assets like mutual funds for the bulk of your nest egg.

Ask Dr. Per Cap is a program funded by First Nations Development Institute with assistance from the FINRA Investor Education Foundation. For more information, visit www.firstnations.org. To send a question to Dr. Per Cap, email askdrpercap@firstnations.org.