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CRAIG PULLIAM CFP®, AIF®, CLU, REBC | MICHAEL R. COMSTOCK CFP®, AIF®
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"Fool's Gold?"

Gold is one of the most misunderstood and overhyped investments there is. It's claimed as a hedge against inflation, a guard against a falling dollar, and a safe haven in the event of a societal collapse. Yet, it could easily fall short of all these claims. So, why do we keep hearing about it, and why would anyone own gold?

- **What's the Purpose of Gold?** Gold has long been considered a "store of value", and as a medium of exchange in the event of the crash of currencies and empires. It was one of the first universal currencies, and an ounce of gold that bought you a horse 200 years ago . . . can still do so today.
- **How We Use Gold Today:** These days gold has very little utility other than for ornamentation. According to the World Gold Council, 57% of gold in 2015 was used for jewelry, 21% for investment, 14% was purchased by central banks, and just 6% was used in industry. Most other metals have far more industrial/manufacturing demand.
- **The Price of Gold is Fickle:** Owning gold can be a rough ride. While gold prices may not have the annual volatility of stocks, the price of gold has enjoyed only two major spikes in the last 40 years. It peaked at over $2,400/ounce (*inflation adjusted dollars*) in 1980, only to lose 80% of its value over the next 20 years! Then, it rose again during the first decade of this century to around $1,900/ounce, only to slip to $1,050 in late 2015 (a 45% drop). It has never regained its inflation adjusted 1980 high.
- **Is Gold a Good Hedge Against Inflation?** You be the judge. Gold was about $850/ounce (*non-inflation adjusted*) in January of 1980. Since that time, inflation has risen by a factor of 2.7 times (Bureau of Labor Statistics). Therefore, gold *should be* about $2,300/ounce today to keep pace with inflation, but as we write this it stands at $1,240/ounce. In contrast, in 1980 the S&P 500 Index* was 111, and today it's 2,050, up 1,700% (Standard & Poor's).
- **What Drives Gold Prices?** You hear that gold's price has a correlation with movements in inflation, the U.S. dollar, or the stock market. But the data tells you that there is very little correlation at all. As Ben Bernanke (the Fed Chairman at the time) told the U.S. Senate Banking Committee, "Nobody really understands gold prices and I don't pretend to understand them either". Well, if Ben Bernanke can't understand it . . .
- **Doomsday is Coming! Stash Gold!** You hear this exhortation frequently, and it's got a certain appeal for those who think the social fabric of the country is unraveling, that financial institutions are failing, and our currency will be worthless. But just think . . . if things are *that* bad, how will business be conducted

using a “currency” so few people own? Perhaps you’d be better off learning survival skills, buying a generator, laying in canned goods and antibiotics, and considering how you’ll defend yourself from those who didn’t plan as well as you did.

- **The Gold Grab of 1933:** In April of 1933, President Franklin D. Roosevelt signed Executive Order 6102, which prohibited private citizens from hoarding gold (other than jewelry). All persons were required to turn in their gold for $378/ounce (*inflation adjusted dollars*) or risk a fine of up to $10,000 ($182,000 in today’s dollars) and/or up to 5-10 years imprisonment. The Federal Reserve needed more gold to back an increase in the money supply, so the government just took it.
- ***If* You Timed it Right:** From 2002 to 2011, gold prices rose about 18% per year, on average. That was one of the two spikes in 40 years we mentioned. But, you had to wait 21 years from the last spike in 1980.
- **The Beauty of Stocks:** A company is a productive asset. It produces income. Owning stocks allows compounding –an investor’s biggest ally- to go to work for you. Even a modest investment with dividends reinvested, can quadruple (or more) over time**. Gold has no income to reinvest. As Warren Buffet is reported to have said, “It just sits there looking shiny.”

In the face of all the misinformation and wild claims we felt compelled to write something about owning gold. It should not be the foundation of your investment plan, nor should it be the lynchpin of your dystopian preparedness. At best, it may diversify your portfolio a little.

There are always lots of fanciful investment schemes flying around. Don’t fall prey to the pitchmen, and the fear mongers. If you have a question, we’ll help you (or your friends and family) find the facts. Ignorance is not bliss.

*Standard & Poor’s 500 Index (S&P 500): Broad-based measurement of changes in stock market conditions based on a market capitalization-weighted index of 500 widely held stocks. All indices are unmanaged and investors cannot invest directly into an index. Investments are subject to risk, including the loss of principal. Some investments are not suitable for all investors, and there is no guarantee that any investing goal will be met. Past performance is no guarantee of future results.
**$10,000 initial investment; 2.5% dividend reinvested; plus 4% annual growth over 2o years.

Craig Pulliam and Michael Comstock are CERTIFIED FINANCIAL PLANNER™ professionals practicing at 112 Westwood Place, Suite 310, Brentwood, TN. They own Premier Asset Management and are registered representatives and investment adviser representatives with/and offer securities and advisory services through Commonwealth Financial Network: A Registered Investment Adviser, Member FINRA, SIPC. Fixed Insurance products and services offered by Premier Asset Management are separate and unrelated to Commonwealth.

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