Portfolio Advisor

Fall 2020

The glitter of gold

Long seen as the ultimate store of value, gold has unique characteristics that have led it to be one of the most coveted assets the world over. Its recent sharp rise in value has re-focused attention upon it, prompting many investors to wonder what the glitter of gold is all about.

Golden ages

Gold has been around for ages: pieces have been discovered in Spanish caves that date as far back as 40,000 B.C. Ancient Egyptians smelted it as far back as 3600 B.C. Today, gold is prevalent around the world as a precious metal, rare enough to command real dollars to own, but ubiquitous enough to be enjoyed and valued by millions of people. It has at various times been used as a currency, for example by the Roman Empire. Currencies like the U.S. dollar and the British pound were once linked to the value of gold, underpinning their value.*

"Gold is money – everything else is credit." ~ J.P. Morgan

About half of the world's annual gold production – around 3,500 tons in 2019 – is used for jewelry, while the rest is divided up for use in technology, investment, and as reserves by central banks.*

In general, investors can access gold through commodity futures contracts, Exchange-Traded Funds (ETFs), mutual funds and direct ownership of gold-producing, publicly listed companies. Gold producers fall under the Materials sector of the S&P/TSX Composite Index, which is currently the second largest sector at 15.5% of the total index. Gold producers represent a significant portion of the sector, and includes Barrick Gold, currently the world's largest gold producer and the seventh largest company in the index by market cap.**

Gold standard

Gold can also serve investors and their portfolios in specific ways, including as a:

Portfolio diversifier: Gold has historically exhibited a low correlation to other more economically-sensitive commodities and assets classes, and is typically negatively correlated to the U.S. dollar, attributes that can provide diversification benefits to a portfolio.

Inflation-hedge: Gold's scarcity and perception as a "store of value" has long made it a hedge against high inflation, maintaining its value over the long term while rising prices erode the purchasing value of fiat currencies.

Safe haven: In times of uncertainty, upheaval and volatility, gold is seen as a relatively safer place to wait out trouble given its low correlation with other major asset classes and perception as a store of value. Historically, gold doesn't often decrease or increase with the same momentum as the market as a whole – but when volatility hits, this makes the shiny metal especially attractive, potentially providing a "buffer" against falling asset values.

From an investment standpoint, gold can be suitable for an investor's portfolio based on their specific investment objectives and risk tolerance. Wondering if gold is right for your portfolio? Please contact us to learn more.

*Source: World Gold Council. October 2020.
**Source: S&P Dow Jones Indices LLC. All figures as of September 30, 2020.