ADVISER INVESTMENTS

AI MARKET METRICS

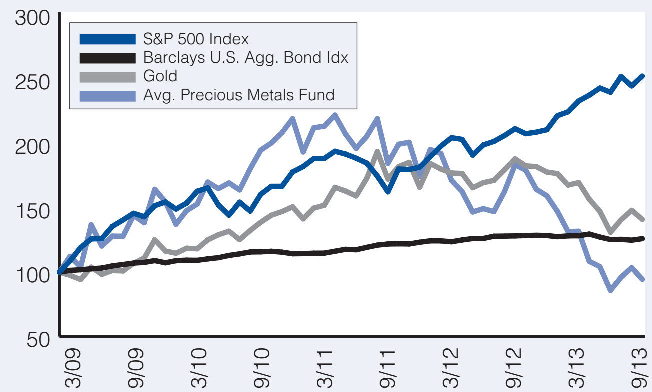
# Fool's Gold

In times when uncertainty grips the markets—say in the midst of a government shutdown—you'll hear the enduring cry that buying gold is the best way to protect against market losses and reduce correlation with more traditional investments. But the last few years should serve as an object lesson on just how volatile gold is, whether you invest in coins, bullion or a mutual fund that allocates heavily to gold miners and dealers as well as other precious metals.

At the end of September 2013, the price of gold, at $1,329 per ounce, was up only 1.6% from the $1,308 price in September 2010 (in the interim, it spiked to more than $1,910 in August 2011—the decline back to where it is now represents a 30% loss). Over that same three-year period, the S&P 500 stock index posted a total return of more than 57%, the Barclays U.S. Aggregate Bond Index was up 9% and precious metals funds as a category lost an average of 52%. Somehow we still see no lack of TV commercials hawking gold as the safest investment your money can buy. (We change the channel often.)

The adjacent chart compares the performance of the stock and bond markets against the price of gold and the average precious metals mutual fund since the market bottomed in early 2009—a period during which many investors fled the stock market for bonds, cash or alternatives like gold. While bonds have advanced gradually in a nearly straight line over the last four-plus years, stocks have staged a remarkable rally, one which those who sought the perceived safety of gold and precious metals have missed out on. You can see that precious metals funds and gold participated early in the rally before experiencing steep losses in 2012 and 2013. While those early heights look pretty fantastic, the declines from them should be enough to turn most investors' stomachs. Precious metals funds as a category have experienced losses off the highs in 2011

**Precious Metals' Wild Ride**




Source: Morningstar.

that tallied up to more than 57% through the third quarter of 2013, and would require a 132% gain to be made whole again. For those who invested in gold, it would take a 44% gain to get back to the prior high. And, as you can see, investors in precious metals funds have lost money since the market bottom for stocks, while gold buyers have seen the value of their investment only slightly outpace bonds with far greater volatility month to month.

As we are fond of saying, your best investment in gold is as a gift for a loved one, not as a position in an investment portfolio. We prefer to focus on stocks and bonds.