

THE ULTIMATE HEDGE

**Why Gold Deserves a Bigger
Role in Your Portfolio**



The Ultimate Hedge: Why Gold Deserves a Bigger Role in Your Portfolio

Executive Summary: Decades of price history clearly shows that owning gold will boost portfolio returns and do so with less volatility. Back testing of various asset mixes also showed that a 15–20% gold allocation is the ideal balance between risk and reward. Although paper gold substitutes offer benefits to gold traders, they also carry undesirable liabilities when the advantages of owning gold are needed most. That is why owning physical gold delivers the ultimate protection against economic, market, and geopolitical uncertainty. We recommend using the Hard Assets Alliance and its world-class vaulting and global delivery services.

Something is brewing in the world of fiat currencies. Look at sovereign rates and consider how we got here. Japan eased up on yield curve control, and their interest rates have moved dramatically higher in recent months. The nominal rate doesn't look particularly high until you consider the orders of magnitude of the move.

Large institutions like BlackRock are buying bitcoin and Ethereum. You know what else institutions are buying? Gold.

For the first time in decades, global central banks now hold more gold than US Treasuries.

Smart money is preparing for a world less dominated by the US dollar, repositioning for whatever is coming next.

Period	Central Bank Gold Activity	Market Impact
1990s-2000s	Net selling (500+ tonnes annually)	Suppressed gold prices
2010-2020	Shift to net buying (400+ tonnes annually)	Supported price floor
2020-2025	Accelerated buying (800+ tonnes annually)	Major price driver

Source: [Discovery Alert](#)

Some investors saw gold's ascension coming decades ago and prepared.

We know one person who got gold and Bitcoin right: Dan Tapiero of 50T Funds. He might be the world's greatest macro investor who remains relatively unknown outside the hedge fund world. He's also a co-founder of Hard Assets Alliance, the precious metals platform we helped start back in 2012.

Some of you are wondering, *"Am I too late?"*

Our friend Jared Dillian would say "no."

Consider this: Gold might be right where Bitcoin was at \$50,000. It's possible gold could more than double from here, and it might happen quickly.

The better question is, *"Do I have enough?"*

And for many investors, *"Do I have any?"*

Ray Dalio recently suggested investors allocate up to 15% of their portfolio to gold. Jeffrey Gundlach of DoubleLine Capital goes further, suggesting an allocation of up to 25%. Both are concerned about monetary debasement. In this report, we'll look at what is driving gold's price and what to do about it.

Why Gold Is Moving

Multiple forces explain why gold has been climbing higher and why that is likely to continue:

Bad Policy and Global Debt: Across the globe, central banks are grappling with unsustainable sovereign debt loads. When governments can't pay their bills through normal means, they have historically resorted to currency debasement. Gold has always been the favored hedge against this playbook.

Western Financial System Concerns: Countries that might find themselves on the wrong side of Western foreign policy (Russia, China, et al.) are diversifying away from the US dollar. The increasing use of sanctions and financial warfare, particularly on the heels of Russia's 2022 invasion of Ukraine, has accelerated this trend. When your assets can be frozen or seized for geopolitical reasons, physical gold becomes more attractive.

The Global Backstop: Italy and France are showing debt crisis warning signs reminiscent of Greece in the 2010s. Japan's prime minister recently resigned. Many would argue that Argentina's fiscal and economic health have improved under President Milei, but Argentina's systemic problems remain far from fixed. When nations and fiat currencies come under pressure, gold thrives.

The Ultimate Hedge

You may have heard the adage that an ounce of gold will buy a decent man's suit today, just as it bought a decent toga in ancient Rome. The takeaway: gold retains its purchasing power over very long stretches of time.

However, gold does more than protect your purchasing power. It is the ultimate hedge against currency debasement. It also tends to be negatively correlated with most other major asset classes. When they fall, gold holds steady or rises.

Most investors have traditionally let government bonds serve as a counterbalance to their stock portfolio. Bonds generally rose when stocks fell, and vice versa.

That relationship has broken down in today's increasingly financialized world. Stock and bond prices have become more correlated, with both falling on economic concerns or in times of limited liquidity.

Gold, on the other hand, has a proven history as a superior hedge. That is especially true during crisis periods when investors panic and other investments suffer in unison.

The table below shows that gold was a better hedge than Treasuries in eight of the 11 most recent large market corrections.

Gold vs. Treasuries During Crises

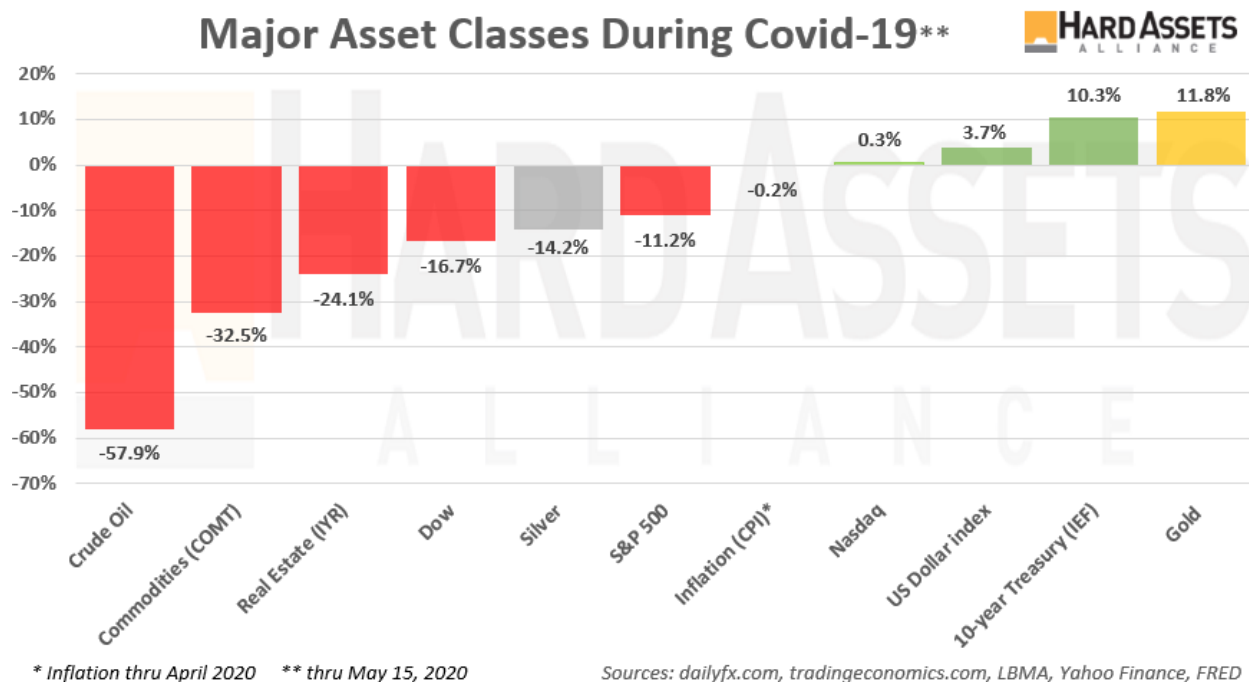


	Start	End	S&P 500 Index	U.S. Treasuries	Gold
1987 Crash	8/25/87	10/19/87	-33.2%	-2.6%	5.0%
Iraq Invades Kuwait	7/17/90	10/12/90	-17.6%	0.8%	7.6%
Asia Crisis	10/7/97	10/28/97	-6.2%	0.0%	-4.6%
Russia/Long-Term Capital Management Crisis	7/20/98	10/8/98	-18.7%	5.3%	1.2%
September 11, 2001	9/10/01	10/11/02	-22.3%	11.2%	16.6%
Global Financial Crisis	10/11/07	3/6/09	-54.5%	15.8%	25.6%
2010 Euro Zone Crisis and Flash Crash	4/20/10	7/1/10	-14.5%	4.5%	5.1%
U.S. Sovereign Debt Downgrade	7/25/11	8/9/11	-12.3%	3.6%	7.8%
Taper Tantrum	5/22/13	6/24/13	-4.8%	-2.0%	-6.4%
China Worries	8/18/15	2/11/16	-11.8%	3.5%	11.5%
Fed Rate Increases & U.S. - China Trade War	9/20/18	12/24/18	-17.9%	2.5%	5.1%
Average			-19.4%	3.9%	6.8%

Source: Tocqueville

On average, gold has outperformed US Treasuries during periods of market turmoil over the past four decades.

What about during the dark days of the Covid-19 pandemic? From January 1 through May 15, 2020, gold topped all major asset classes including the 10-year Treasury.



History shows that gold can shield your portfolio against the worst events you're likely to experience. Investors who don't own any, or own too little, are vulnerable to larger portfolio drawdowns and higher volatility.

Gold Shines When Stocks Crash

There are few things more harmful to an investor than a stock market crash or an economic downturn. How gold has behaved during these events is a good indicator of how it will behave in the future.

The next chart shows the nine biggest declines in the S&P 500 since the mid-1970s.

Gold & Silver During Stock Market Crashes



Dates of S&P 500's Biggest Declines	S&P 500	Gold
Sep 21, 1976 - Mar 6, 1978	-19.4%	53.8%
Nov 28, 1980 - Aug 12, 1982	-27.1%	-46.0%
Aug 25, 1987 - Dec 4, 1987	-33.5%	6.2%
Jul 16, 1990 - Oct 11, 1990	-19.9%	6.8%
Jul 17, 1998 - Aug 31, 1998	-19.3%	-5.0%
Mar 27, 2000 - Oct 9, 2002	-49.0%	12.4%
Oct 9, 2007 - Mar 9, 2009	-56.8%	25.5%
May 10, 2011 - Oct 3, 2011	-19.0%	9.4%
Feb 19, 2020 - Mar 23, 2020	-33.9%	-4.9%
Average	-30.9%	6.5%

Gold rose during 6 of the last 9 big S&P crashes. When it did fall, it fell far less than stocks, thus preserving portfolio value.

Gold does not automatically rise with every downtick in the stock market. But history tells us investors turn to gold in times of uncertainty.

Gold has historically acted as a strong hedge during recessions. Since the 1970s, it has risen during most recessionary periods—and sometimes dramatically in their wake.

As an investor, your goal is to earn steady and high long-term returns. One way to achieve that is to beat the market when it is rising. Another way is to minimize losses when markets retreat. Gold has proven it can consistently do both.

Portfolios Perform Better with Gold

You've just seen how gold can act as a wealth shield during times of market stress. But does it pay to *always* have gold in a portfolio?

Back-tested studies give us some clear answers.

We analyzed several scenarios to see how a theoretical portfolio performed with various amounts of gold (including none). The baseline portfolio holds a conventional 60% stock/40% bond mix. The S&P 500 and the 10-year Treasury were used to represent stocks and bonds, respectively. The prevailing spot price of gold was used to calculate the percentage.

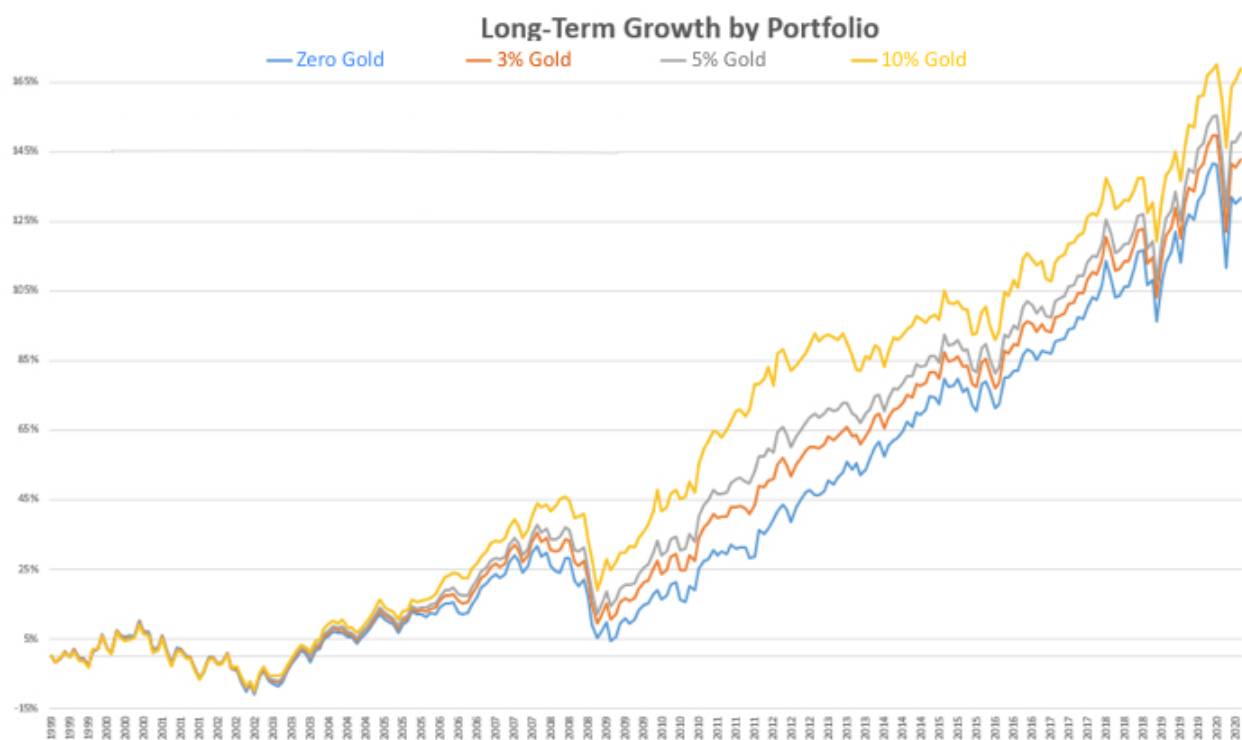
The data runs from January 1999 through May 15, 2020, over 21 years. This period included both bull and bear markets in all assets, and thus offers insight into gold's enhancing role through various market conditions.

Portfolio Allocation to Gold: Four Scenarios

- Zero Gold Portfolio (60% stocks/40% bonds)
- 3% Gold Portfolio (3% gold/58.5% stocks/38.5% bonds)
- 5% Gold Portfolio (5% gold/57.5% stocks/37.5% bonds)
- 10% Gold Portfolio (10% gold/55% stocks/35% bonds)

No adjustments for inflation, commissions, or dividends

The cumulative performance of the four portfolios over the 21+ year period:



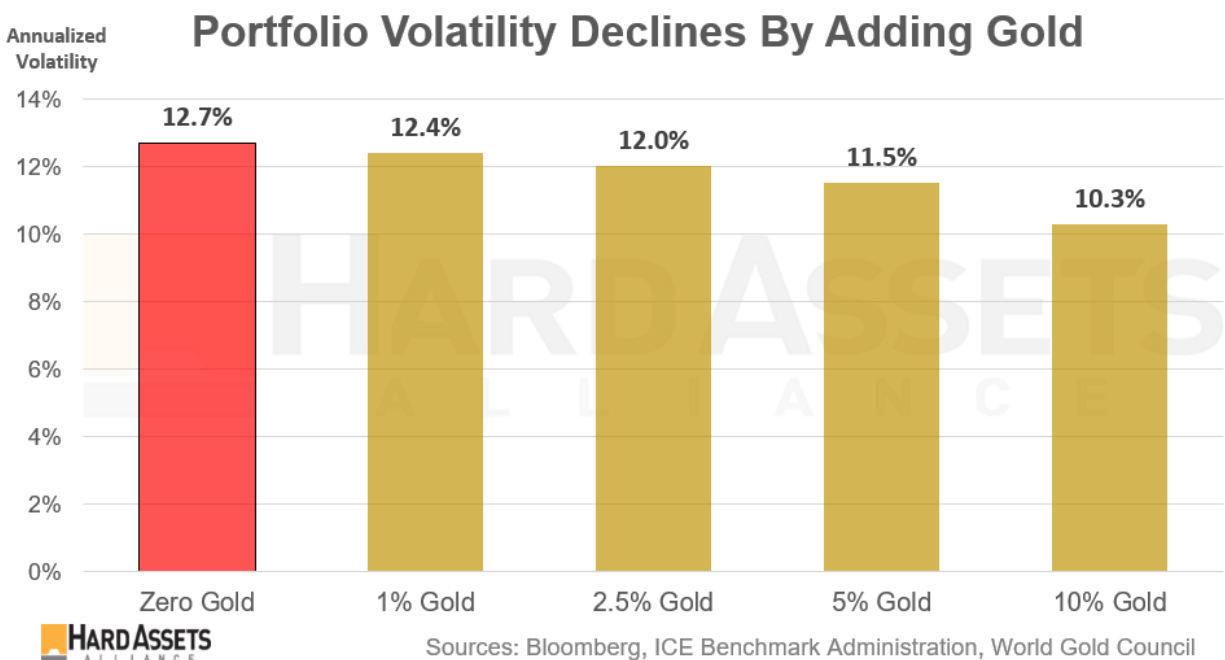
A portfolio with 10% gold outperformed those with less or zero gold.

The outperformance results from combining *a steady, long-term preservation of value with solid hedging characteristics*.

Gold = Less Stress

Gold can smooth out volatility.

A 20-year study from the World Gold Council measured the volatility of a portfolio that held various amounts of gold, ranging from zero to 10%.



As more gold is added, volatility declined for the average portfolio. A 10% weighting to gold will lower volatility by nearly 20% versus holding no gold.

This is powerful evidence, as volatility can often rattle investors (who are only human) and prompt them to make bad decisions that sabotage their long-term goals.

Is Paper Gold Enough?

All of this begs the question: What's the best way to buy and own gold?

Should you just buy some gold ETFs that promise to track the gold price?

Perhaps. But before you do, remember one of the reasons why investors turn to gold when other markets get rocky: it's an outside-the-banking-system asset. It's an insurance policy, in large part because it is the only asset that is not simultaneously someone else's liability.

ETFs or fractional ownership programs—where you can buy as little as \$1 worth of gold—are an attempt to “financialize” gold. They come with several trade-offs that might ultimately defeat some of gold's valuable properties.

By pulling gold into the complex world of financial assets you introduce new counterparty risks.

There is a risk—difficult to quantify but certainly not zero— that paper gold, like bonds before it, will wind up correlating with other markets and lose its hedging advantage. That is especially true in the wake of outsized events like the 2008 global financial crisis.

A good example is what happened in March 2020. For several days, two major mining ETFs failed to track the value of their underlying assets. The funds fell *far* more than the stocks held within them. It was most likely due to margin calls that forced professional traders to dump these funds as they scrambled to raise capital.

These funds are promoted as a reduced-cost way to diversify your gold investment across a group of companies. Ultimately, however, fund holders were hit with outsized losses even though demand for gold exposure was high.

This episode caused serious concerns among gold investors.

While the funds eventually righted themselves, it was a wake-up call for investors whose only gold exposure is through paper gold.

Paper gold can break down in periods of market stress. It's possible to imagine a scenario where the price of a paper gold fund dramatically diverges from the spot price of the metal.

In theory, you could take delivery of your gold and avoid the paper loss. In practice, that may prove difficult. That's because delivery is not always an option, and if it is it can be expensive.

For the few funds that offer it, taking physical delivery of your gold might not be possible in “extreme scenarios.” Ironically, that's exactly when you need it most.

The same goes for many precious metals online platforms that call their buy-and-store programs “allocated.”

In reality, allocated gold can come in many different formats, and each one can mean something dramatically different.

For example, your allocated gold may be in the form of shared ownership of large gold bars or a “pool” of gold. The gold may be held in a vault in an unclear location. Or the vault may sit in a quiet island nation with weak legal protections where the rule of law is iffy.

That kind of setup may sound preposterous, but if you read the fine print, you will find it is all too common.

None of this sounds reassuring for an investment meant to be your asset of last resort. In periods of financial or market stress, real, practical access to *physical* gold may prove imperative.

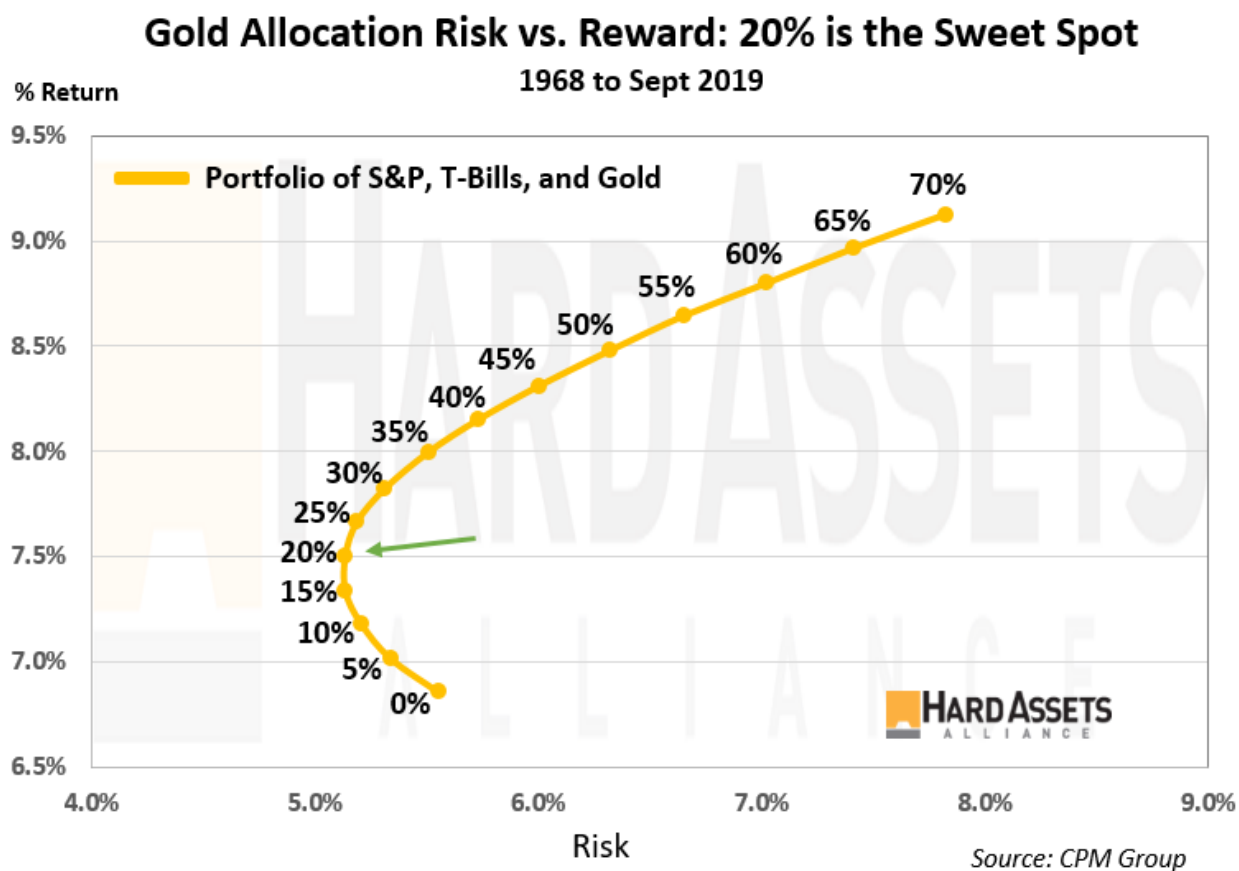
Gold is a low-risk asset. You make it riskier when you only hold paper gold substitutes.

How Much to Allocate to Gold

Researchers at CPM Group compared the risk/reward of owning various amounts of stocks, bonds, and gold. The study goes all the way back to 1968, offering a useful long-term view.

The study measured portfolios that owned between zero and 70% gold. As the share of gold rose, they discovered that risk declined and return improved. The experiment eventually hit a point where the risk/reward ratio began to turn negative.

Where was that sweet spot between risk and reward?



Portfolios with a 15–20% allocation to gold have historically offered investors the ideal balance between risk and reward. Anything more or less, and the added risk outpaced any rise in return.

What do other professionals recommend? UBS and Mohamed El-Erian have historically suggested around 5% allocations. Jared Dillian recommends 20%—and that higher number is supported by the historical data.

Know Your Options

There are lots of ways to buy, and the traditionalists among us like physical, because they know their history. They see how central banks are getting positioned. Remember, for the first time, non-US central banks hold more gold than US Treasuries.

How do they hold it? They have direct claims on physical gold.

Physical Gold –Our favorite way to buy and hold physical gold is via the Hard Assets Alliance. HAA enables you to store physical gold in the world’s most secure vaults. We’ve toured the New York facility. Lots of armed guards with very big guns greet you at multiple vault doors.

You can take delivery anytime. You can buy or sell via their website.

[Go here to learn more, open an account, and take advantage of their “cash back” special offer created specifically for Mauldin Economics readers](#)—which includes 12 months of free storage for new accounts.

Full disclosure: Olivier Garret (Mauldin Economics CEO) and Ed D’Agostino (our Publisher and COO) helped create the Hard Assets Alliance in 2012. We worked with Gold Bullion International to bring their institutional gold services to individual investors. Eventually, we sold our interest in HAA to Gold Bullion International. We still recommend HAA and yes, we get a small commission if you use their services. We especially like their monthly investment program, which we use at Mauldin Economics, purchasing a fixed amount of gold every month, automatically, to build our holdings.

Other Options

Gold Mining Stocks – These are a leveraged bet on gold. When gold moves up, miners typically move up more (and vice versa). When mining stocks work, they *really* work. But they come with additional risks related to jurisdiction, management, execution, and environmental concerns.

Gold ETFs – GLD or IAU are options for someone who wants to trade metal, values quick liquidity, and prefers to operate within their existing brokerage account. The benefit is immediate liquidity and simplicity.

The key is to understand what you’re getting with each approach and make sure it aligns with your goals for owning gold in the first place.