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## Can Gold Augment Family Wealth? By Shannon Zur, CPA, Director of Client Services

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Gold has been a prized metal for more than 5,000 years. It has been used for monetary exchange, jewelry, and today in industrial applications. Families seeking to protect and grow multigenerational financial wealth might ask, "Should we own gold"? To answer this question, one should first consider the purpose for holding gold. It is not as simple as some soothsayer predicting gold will go up, so you should buy it. Rationale for holding gold include: 1) the desire for safety or stability, 2) a hedge against inflation or portfolio risk, and 3) pure tactical or strategic investment reasons.

First, the most basic reason for a family to own gold is to protect financial wealth and the means of exchange in times of turmoil. In a crisis scenario, gold coins or bars could be exchanged for shelter, food, protection, or other necessities. It is probable that gold would become the de facto currency if fiat currencies suddenly became worthless. Other assets, such as arable land, guns, bottled water, and food would also have value, but none would be as universally accepted as physical gold. Note there is the not-so-inconsequential problem of storing and protecting the gold. Even if a worst case scenario does not materialize, geopolitical tensions will ostensibly remain elevated. Gold has traditionally been a hedge against economic and political turmoil. For those buying gold as a hedge against turmoil, it does not matter what you pay for it today or what it is worth tomorrow.

Second, gold has historically been viewed as a financial hedge against inflation and portfolio risk. Some economists are calling for a long-term secular decline in the U.S. Dollar and for higher inflation, during which gold could further rise. Gold has historically been a beneficiary of inflation as fiat currencies depreciate. Over certain periods of time, particularly 1990 to present, gold's volatility has been average. Other time periods have been more volatile, but gold has only been a market priced commodity since 1971 (prior to this, the price was fixed). Probably most compelling is that gold has diversification benefits because it is often non-correlated with other assets. In other words, gold has historically zigged when other assets have zagged.

Lastly, despite gold's recent strong performance, investment arguments still have merit. Investment considerations include: 1) Diversification—what impact does gold have on the expected risk and return of your portfolio? 2) Liquidity—how quickly can the investment be converted to cash? 3)

Costs—taxes, commissions, storage, and insurance. 4) Risks—market, counterparty, theft, and fraud. Gold also has unique risks. Remember that gold has no intrinsic value—it is only worth what someone is willing to pay for it. Therefore its value is dependent on supply and demand. Gold also does not produce any income so appreciation is the only source of return. Also realize that no one factor can be relied upon to predict future prices so forecasting is ineffective.

Although gold as an investment gets most of the attention in the media today, the first two reasons discussed above deserve serious consideration for families seeking to protect and grow multigenerational financial wealth. Many investors today have bought into the hype and view gold only as an investment without considering other reasons they would own gold. We cannot predict future gold prices and do not believe anyone can. What we recommend is that clients consider why they want to own gold before it is purchased so it can be appropriately purchased and monitored.

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