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More Investors Shift Into Hard Assets

Wary of the markets and a weak dollar, more investors are drawn to precious metals, diamonds -- even collectibles. The pros and cons of this strategy.

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When it comes to constructing the ideal portfolio, investors typically turn to the same building blocks: stocks, bonds and cash options like CDs. But that's so 2006. At a time of increasing global uncertainty, many are reconsidering that traditional formula and saying they'd prefer something more tangible and portable. Like gold. Or diamonds. Or even vintage designer purses.

"They continue to grow in value," says New York public relations executive Angela Calman-Wonson of her collection of vintage bags. But those bags represent only a small portion of Calman-Wonson's portfolio; she also invests half her savings in items ranging from rare books to limited-edition photographs. And while she does keep the other half in standard financial vehicles -- "I'm not going to be accumulating a pile of Chanel handbags to pay for four years of my child's college education," she says -- she believes that hard assets are increasingly the way to go.

She's not alone. As evidenced by the much discussed increases in the prices of gold (up 28 percent in the past 12 months), silver (up 127 percent) and even palladium (up 58 percent), there's strong demand for precious metals. And some pros say it's also a good time to invest in items not necessarily traded on traditional exchanges. Prices of polished diamonds have risen 13 percent in the past year, according to Idex Online, which surveys the diamond market. Even collectibles show solid promise: While stocks may have experienced a lost decade of returns from 2000 to 2010, the price of autographs of famous figures spiked 147 percent during that same period, according to an index developed by Fraser's Autographs, a leading memorabilia dealer in London.

But more to the point: It's not just that there's a market for such hard assets. Rather, it's that investors are consciously folding them into their portfolios, not merely collecting them for enjoyment or "play money" speculation. And in some instances, they're being encouraged to do so by financial advisers, who previously might have placed less emphasis on such alternative investments. New Jersey adviser Jeffrey Sica, who manages more than $1 billion in assets for a small group of well-heeled clients, says in recent years he's upped the portion of precious metals in client accounts from 10 percent to 25 percent. "There's more interest in tangible assets than there ever has been in my 25-year career," he says.

The big contributing factors? Concerns about inflation and a weakening dollar, partly stemming from the widening U.S. deficit, have prompted investors to seek an alternative path, say financial experts. (And there's plenty of precedent for that: During the post World War II era's worst five inflationary years -- 1946, 1974, 1975, 1979 and 1980 -- gold surged 130 percent, while the Dow dropped 12 percent on average.) Reinforcing this sentiment has been a distrust of financial institutions that's remained in place since the market slide of 2008 09. Finally, there's what might be called the Armageddon factor. When investors see the massive devastation in Japan, they see a more dangerous, unstable world; suddenly, having a cache of wealth they can hold in their hands begins to have a certain postapocalyptic allure.

While many old-fashioned advisers (ahem, "financial traditionalists") acknowledge the gut-level appeal, they also point out the obvious: Investing in hard assets comes with all sorts of expenses and risks, starting with the lack of liquidity. There's no stock exchange for, say, Louis Vuitton handbags. And don't forget the cost of storage and insurance; it can cost up to $13,000 annually for a New York City condo resident to insure $1 million in jewelry, according to Chartis, a leading insurance provider. As for that doomsday scenario, many pros say investors would be better off stockpiling cans of tuna. "What do people think they'll do? Use a Rembrandt to buy a carton of eggs?" asks Mitchell O. Goldberg, president of ClientFirst Strategy, a New York investment firm that serves clients in 13 states.

Still, even Goldberg sees a place for something tangible in a portfolio. He suggests commodities in the form of ETFs; he favors metals with an industrial use, especially copper. As for the hold-in-your-hands variety of wealth, Calman-Wonson did trade one of her precious bags for three weeks of postpartum care a few years ago. Turns out, the nurse she contacted was a collector as well. "Now that's liquidity," she says.