Investment Strategy & Research

Chart of the Week: What Glitters May Not Be Gold, Part 3

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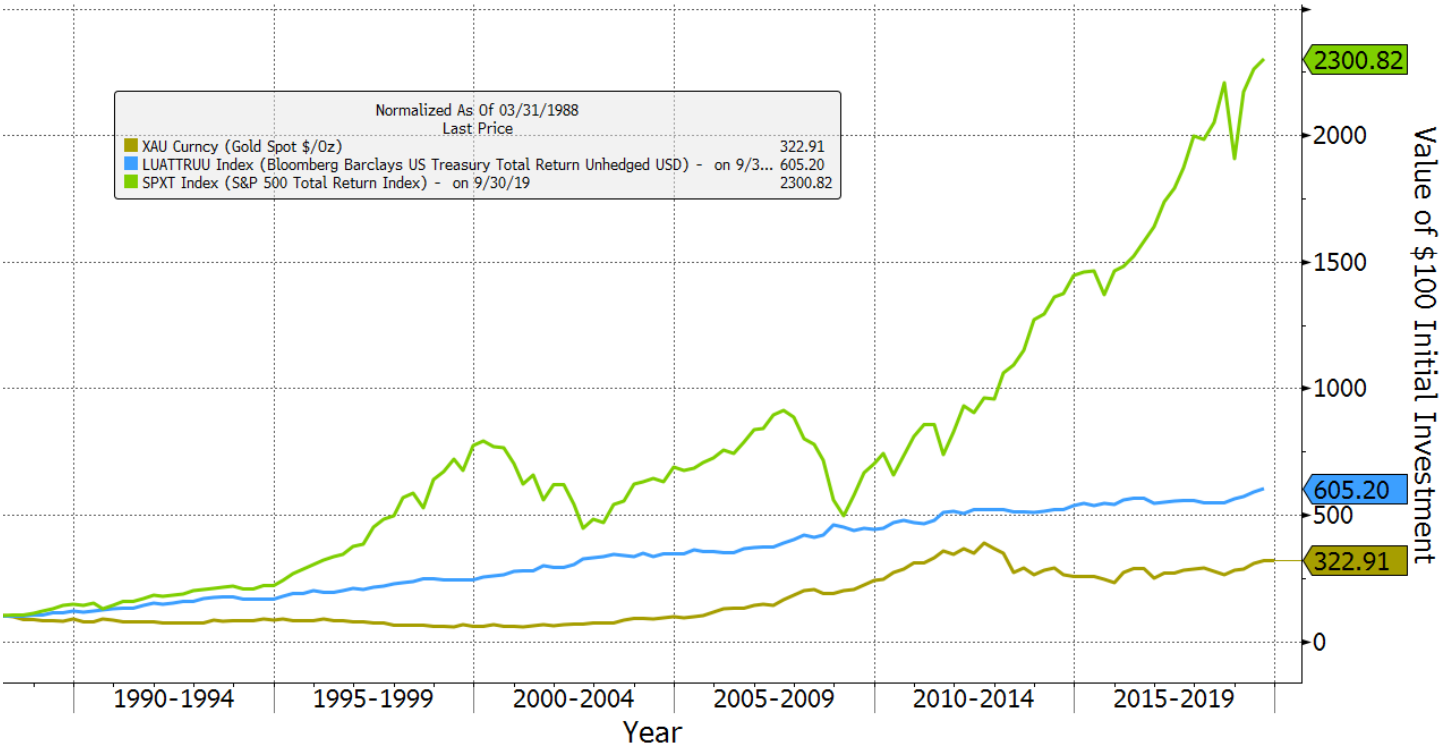
What Glitters May Not Be Gold, Part 3



Source: Bloomberg

XAU Curncy (Gold Spot $/Oz) Gold v Bonds v StocksTR Quarterly 01JAN1988-01OCT Copyright© 2019 Bloomberg Finance L.P. 01-Oct-2019 10:04:10

In this week's Chart of the Week, we show the *current* value of $100 invested on 3/31/1988, over 30 years ago, in three different asset classes: gold, stocks (S&P 500), and bonds (the Barclays Agg, mostly Treasuries). We have not cherry picked this period; it is the longest we can go back with total return data for each of these series.

This means $100k invested in gold in 1988 is worth enough for a modest home near a medium sized city ($300k).

Alternatively, $100k invested in the US stock market (S&P 500) in 1988 is now worth: a lake house ($250k); dinner at Morton's every week for 20 years (pre-paid at $200 x 52 x 20 = $208k); a 'well equipped' pair of 2020 Maseratis (Levante SUV, $94k; Quattroporte sedan, $121.5k); the initiation fee to a private golf club ($100k); a quarter-million dollar donation to charity ($250k); and college tuition for four (let's just call that an even $1 million). Oh, plus the modest home near a medium sized city ($300k) from the 'gold' scenario.

Gold can seem safe in a scary world. The last 30 years have certainly not been stable or predictable, yet companies have found a way to succeed, and proceed onward to compound gains. **Remember: gold does nothing; it just sits there** (while armies of geniuses work 18-hour days in Silicon Valley). Gold holds low correlation with most assets, so small allocations can lower portfolio volatility; however, **do not let someone scare you into thinking that stocks cannot be a driver of long-term wealth creation, or that gold is a foolproof alternative.**

PLEASE SEE IMPORTANT DISCLOSURES ON PAGE 2

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KEY DEFINITIONS

S&P 500 – index comprised of ~500 large-cap US equities listed on the NYSE or NASDAQ (price return).
Russell 2000 Index – index comprised of ~2000 small-cap US companies (price return).
MSCI EAFE – index comprised of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East (price return). This index does not include US or Canadian companies.
MSCI EM - index comprised of large and mid-cap securities across 24 emerging markets (price return).
Bclys US Agg – (Bloomberg Barclays US Aggregate Total Return Bond Index, Unhedged) total return bond index comprised of taxable, dollar-denominated debt.
Oil--WTI – represents West Texas Intermediate Crude Oil, a grade of light crude oil used as the underlying commodity in many indices and futures contracts.
Oil--Brent – represents Brent Crude Oil, a grade of light crude from the North Sea used as a global benchmark price.
IG Spread – (Investment Grade Spread) represents the yield difference between an index of investment-grade rated bonds and a spot Treasury bond curve – a wider spread implies increased credit risk.
HY Spread – (High Yield Spread) represents the yield difference between an index of below investment-grade rated bonds and a spot Treasury bond curve – a wider spread implies increased credit risk.

IMPORTANT DISCLOSURES