

Fool's Gold

Many investors like to own gold especially in times of economic or political turmoil as gold is often viewed as a safe haven. Gold is up over 10% since October, currently trading around \$2,050 an ounce. However, gold was also trading for more than that in 1980.

The reality is that although there have been times when buying gold was a good trade, it has never been a good long-term investment. If you purchased gold in March of 1970, you could have made 10 times your money over the next ten years. However, if you purchased gold in January of 1980, you would have watched your investment drop in value by over 80% and it still would be down by 25% from that purchase over 43 years earlier.

In 1973, the median house price in the United States was \$32,500; fifty years later it was \$423,000. In 1973 the price of gasoline was 39 cents and fifty years later it was \$350. According to Cheapisim Blog, fifty years ago the average price of a new car was \$3,400, today it is \$48,000. In 1973 the price of gold was about \$700 which means that it hasn't even tripled even though it costs over 14 more times to buy a new car, 10 times more to buy a house and almost 10 times more to buy gasoline.

In other words, over the last fifty years gold has been a terrible investment, losing significant buying power. Conversely, if in 1973 you invested \$32,500 (the median price of a house at the time) into the S&P 500 index and reinvested the dividends, your \$32,500 would be worth almost \$5 million today* which would be enough to buy almost 12 homes today.

Investing in growing business through either the public stock market or private equity funds has always been a much better long-term investment than gold. Perhaps gold's long-term underperformance means that gold is currently undervalued, and it is due for a run. However, that would be a speculative trade not a long-term investment.

*www.officialdata.org

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