

I noted [recently](#) that the classic balanced or 60/40 portfolio has a difficult time in periods of inflation. Bonds deliver fixed dollar interest, so they obviously fare poorly during inflation. Stocks should do better theoretically because companies can push prices up in response to higher input costs. **But it doesn't always work that way. Stocks did poorly in the 1970s, for example.** This leads to the question of whether gold can help a classic balanced portfolio in an inflationary environment. Gold is a tricky asset. It has no utility and delivers no cash flow. Its owners can't point to any intrinsic value and depend on other market participants to set the price. If you buy gold, you have to hope that someone else will buy it from you at the same price or a higher price in the future. While that seems obvious and can be said in some sense for every asset, other assets that deliver cash flow, such as an occupied apartment building, have a much more obvious value. Sure, real estate prices can somehow become wildly dislocated from the cash flows the properties are delivering because investors and markets can become irrational at times. But the point is that you can compare price to some underlying cash flow with a property. You can't do that with gold. The market can come to any conclusion about the price of a building it wants. As the owner, you can collect the cash flow the building delivers and wait until the market comes to its senses. Not so with gold.



**REAL
INVESTMENT
ADVICE**

Are you ready to step
up your investment game
with the RIA Team?

**CLICK HERE TO
SCHEDULE YOUR FREE
PORTFOLIO CONSULTATION**

Now a proponent of gold will say that the problem with an asset that delivers cash is that the cash's value or purchasing power can erode. But the owner of the apartment building can raise the rent if cash's purchasing power is declining. Gold's lack of utility also makes it difficult to compare to other commodities. Observers have noted that gold production has decreased in recent years, and such a decrease in, say, oil would lead to price spikes. But gold isn't like oil precisely because it's useless. People need and use oil everyday. That's not the case with gold. Gold mining can drop off considerably with the price remaining stable because of lack of demand. If nobody wants something, it doesn't matter if it's not being produced. Brett Arends has [argued](#) that gold and silver aren't what they once were since the U.S. Government *has . . . broken its legal connection to the dollar.* But Arends notes that Charles de Vault of the IVA funds still keeps a slug of the metal in his portfolios. Also gold has delivered a 7.5% annualized return, measured in dollar terms since 1970. The entire period is marked by long stretches of price stagnation and then two great price surges. Nobody should expect to time entries and exits adroitly.

Gold Fixing Price 10:30 A.M. (London time) in London Bullion Market, based in U.S. Dollars, U.S. Dollars per
Troy Ounce, Daily, Not Seasonally Adjusted



Gold's two big spikes over the past half century have been in the 1970s and after the "*dot.com*" crash and accelerated by the "*Financial Crisis*." **The great newsletter editor and value investor, James Grant, often argues that gold is the reciprocal of faith in central banks. At some point, if people become dissatisfied with fiat currency, gold could rise again.** Investors adding gold to portfolios should understand that its price movement is difficult to predict. They should treat a gold holding as an insurance policy against central bank money printing, but realize that it's difficult to know if and when all the money central banks have printed in recent years will lead to fiat currency problems. Investors should treat gold as an insurance policy that can sometimes take a very long time to pay off.