

Why Gold Is a Poor Safe-Haven Investment

Description

During times of market volatility as well as geopolitical and economic uncertainty, the gold bugs emerge, touting gold as the ultimate safe-haven investment. Gold is perceived to be a safe haven because it is a physical asset, which means its value can't be distorted by printing more of it, like money, or through the interest rate decisions of a single country.

For this reason, and also because of its counter-cyclical nature, which means its value is not correlated to that of the stock market, gold bugs claim that it is the perfect hedge against economic uncertainty, market volatility, and inflation.

Despite these claims and growing interest in beaten-down gold stocks, I believe there is no rationale to invest in gold.

Now what?

Warren Buffett, arguably the world's greatest investor, has an incredible disdain for gold, and this stems from its lack of utility. This, he believes, means that gold essentially has no real value because it has few practical uses. With no clear measures of supply and demand, and without the ability to generate cash flow, it is extremely difficult to anticipate the value of gold.

While its value may not be correlated to financial markets, which perhaps lends it some defensive characteristics, that still doesn't make it an attractive investment.

You see, gold has been one of the worst-performing asset classes over the last 50 years.

This is even after accounting for the massive bull market that was triggered by the global financial crisis, which saw gold reach an all-time high of US\$1,917.90 per ounce in August 2011.

Over that period gold has underperformed the major stock market indices, delivering just over half the return of the **TSX Composite Index** or the **S&P 500**. To make matters worse, it has been one of the most volatile asset classes over that period and is far more volatile than either of those indices.

These, I believe, are not the traits that an investor should accept when looking for a safe-haven investment.

If we look at the performance of some of Canada's top non-cyclical stocks over the last 20 years, we get a comparison of just how poor gold is as a defensive asset.

For that period, gold averaged a paltry 3.7% annually, comparing poorly to **Canadian National Railway Company's** ([TSX:CNR](#))([NYSE:CNI](#)) 72%, **Toronto-Dominion Bank's** ([TSX:TD](#))([NYSE:TD](#)) 44%, and **Brookfield Asset Management Inc.'s** ([TSX:BAM.A](#))([NYSE:BAM](#)) 80%.

All three of these companies also possess the characteristics of a solid defensive stock. They have

wide economic moats and offer products and services that remain in demand despite downturns in the economic cycle.

So what?

This means that these companies' earnings are resistant to downturns in the economic cycle. Over the long term, their earnings are virtually guaranteed to grow, translating into impressive increases in their share prices. Unlike gold, which is a non-yielding asset, all three companies have long histories of paying regular dividends that yield between 1.6% and 4% annually.

As a result, they will continue to reward investors, no matter the state of the market, because of their growing earnings and regular dividend payments. This makes it is easy to see just how superior they are to the shiny yellow metal as a long-term investment.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:BN (Brookfield Corporation)
2. NYSE:CNI (Canadian National Railway Company)
3. NYSE:TD (The Toronto-Dominion Bank)
4. TSX:BN (Brookfield)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:TD (The Toronto-Dominion Bank)

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Date

2025/09/18

Date Created

2016/01/28

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