Stock Market Crash: Buy Gold and Silver?

Description

Global stocks suffered another bloodbath in the third week of March. The **S&P/TSX Composite Index** shed 963 points on March 18, while the **Dow Jones and S&P 500** fell 6.3% and 5.1%, respectively. This steep drop has stunned investors with the speed at which they've been forced to incur losses.

Worse yet, the economic ramifications of widespread shutdowns are incalculable. Millions of service sector employees will be immediately put out of work. Some economists have warned that the unemployment rate in Canada and the United States could quickly rise above 10%. Governments are scrambling to provide stimulus as economic activity has ground to a halt in key industries.

This environment has some investors feeling risk, scrambling for liquidity, and seeking out safe havens. When this year started, I'd explained that some of the reasons for readers to pile into gold stocks like **Barrick Gold** and **Yamana Gold**. The COVID-19 outbreak has spurred activity for precious metals, but in recent days it has slanted negative.

Does it make sense for investors to buy physical gold and silver as this crisis ravages markets? Let's weigh the pros and cons in late March.

Why you should buy physical gold and silver

Physical gold and silver qualify as a tangible asset that's notable for being low maintenance, unlike real estate or some commodities. The yellow metal has held value for thousands of years.

Beyond its historical significance, it's not a slouch in the appreciation department either. The spot price of gold has managed to broadly outperform stocks and bonds since the beginning of this millennium.

Cyber crime is a rising risk for investors currently. Physical gold and silver can't be hacked or erased. Recent history has shown that cyber criminals are more than able to penetrate banking institutions.

Reasons to stay away

Skepticism over the value of storing physical gold and silver has increased in the modern age. One of the reasons for this is cost: One ounce of gold will run an investor about USD $1,500 at the time of this writing. When purchasing gold and silver through a bullion dealer, there are other cost factors to consider.

Coins are more expensive than bars because of their intricate designs, and silver has grown costly because it's still expensive to manufacture, albeit the product's spot price has cratered.

Storage is another big hurdle. Physical metal needs to be stored somewhere, in stark contrast to a stock or simple cash. Bullion storage entails a fee, and if you choose to store it in your own home, there are risks of theft or loss.

Liquidity is another concern. An online storage account allows for rapid conversion to currency, but once again, investors will be forced to pay a fee. Sale of bullion is subject to a capital gains tax.

Worst of all, gold and silver do not produce income or interest for investors. Stocks and bonds can provide income for investors, and real estate can generate rental income.

Foolish takeaway

Demand for gold and silver has spiked as stocks have been battered. The pros of owning gold and/or silver may inspire some readers to pursue this strategy.

For those who do follow through with a purchase, they should take care to maintain a small portion of their portfolio in these kind of assets – ideally in the 5-10% range.

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