2 Gold ETFs to Help Your Portfolio Survive a Market Correction

Description

Threats of multiple rate hikes in 2022 have walloped both stocks and bonds, with high valuation growth stocks and long duration bonds incurring the largest losses.

Couple this with a dose of geopolitical crisis from the Russian invasion of Ukraine, and you have what is indeed a very volatile environment to be investing in.

Investors are understandably trying to find assets that are capable of keeping their portfolios in the green, or at least not too far in the red. With the usual non-correlation between stocks and bonds breaking down, more and more people are turning to gold.

Why we want gold

As noted earlier, stocks are usually uncorrelated with bonds. That is, when stocks go down, bonds, especially U.S. Treasuries usually go up. Treasuries have posted positive returns during numerous market crashes, including the 2000 Dot-Com Bubble, the 2008 Great Financial Crisis, and the 2020 COVID crash.

However, that typical relationship between stocks and bonds has been breaking down recently in the face of pending interest rate hikes. Moreover, bond prices are inversely related to interest rates. When rates go up (like they did recently), bond prices fall, with longer duration bonds suffering more.

When long bonds no longer protecting us as much in a crash, or delivering as good returns, we have to seek alternatives. Our best option here is gold. As a commodity, gold has a low correlation to both stocks and bonds and high volatility, making it an excellent diversifier for portfolios.

The best gold ETFs

To get access to gold, some people will buy physical bullion, or gold miner stocks. The problem with the former is that the bid-ask spread is expensive, and storage can be a pain. The problem with the latter is that they are correlated more with stocks than actual gold is, which limits your downside protection.

Your best choice here is a gold exchange-traded fund (ETF). These funds hold physical gold in a vault, and a share of the ETF represents partial ownership of a proportion. You can buy and sell shares of the fund on an exchange like any other stock during regular trading hours.

If you're investing in Canadian dollars, consider buying **iShares Gold Bullion ETF** (TSX:CGL). This ETF offers targeted exposure to the price of gold that is hedged to the Canadian dollar. The management expense ratio (MER) is currently 0.55%, which is pricy, but typical for a commodities ETF.

If you're investing in U.S. dollars, consider buying **SPDR Gold Shares** (NYSE:GLD). This ETF is the largest and most liquid one in the world, and tracks the price of gold extremely accurately. The MER is also lower at 0.40%, but keep in mind you will need to convert CAD to USD.

The Foolish takeaway

Adding a small (10% or less) allocation of gold to your portfolio can improve risk-adjusted returns and reduce drawdowns, especially in a rising interest rate environment. Using ETFs like CGL or GLD is an accessible, capital-efficient, and cheap way of doing so.

Holding gold also protects us against tail risks like stagflation and war. As a perceived "safe" and "hard" asset, gold is where investors flee to when their local currency suffers, or when their local economy has stagnated. With the high uncertainty in the market right now, buying gold could be a good defensive play.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSEMKT:GLD (SPDR Gold Trust)
2. TSX:CGL (iShares Gold Bullion ETF)

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