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Gold as an investment

Precious metals have long been considered sound investment alternatives for many investors, with gold being held as the most popular. The most touted claim by large brokerage firms is that precious metals are strong hedges against inflation, but as we have proven on numerous occasions, such is not true, especially when it comes to gold. In fact, as we previously concluded, "for gold to be a hedge against losses based largely on S&P 500 equities, the relationship between gold and S&P 500 must be inverse (negative), and the opposite is true (r=.80). While the index is fairly strong, the relationship is positive, meaning the price of gold increases and decreases with the S&P Index, a relationship of no value to us in terms of hedging. As such, gold does not serve as a hedge against financial losses largely based on the S&P 500 equities—at all. As for gold serving as a hedge against inflation, we used an identical method. The correlation coefficient was 0.43 ($p<.001$); and as we learned above, we already realize that gold is not a hedge against inflation as the relationship is positive as opposed to inverse. If we square the coefficient, we find the variance explained by gold price is .185 (R^2=.185). As such, gold is not only not a hedge against inflation, but also a poor predictor of inflation. Subsequently, both claims are false; gold is neither a hedge against the market, nor against inflation."[1]

1. Barber, H. (2022). Gold as a hedge against investment loss. Xicon Economics.

However, the false claims levied by large brokerage firms and others does not mean gold is not a good investment for some investors. As with any other asset, gold has its strengths and weaknesses as an investment. After all, gold has withstood the test of time as an asset many investors desire in their portfolios. So, the question is, "Is gold a good investment?"

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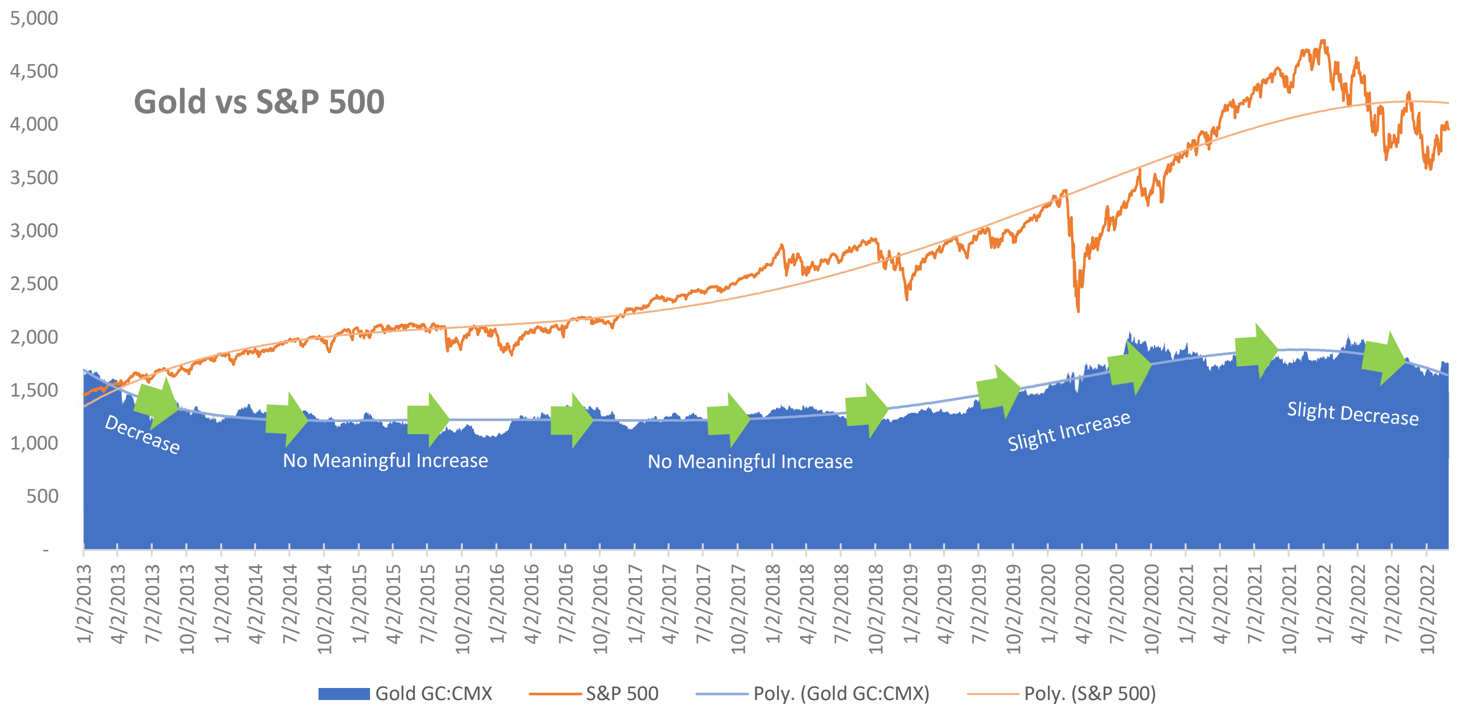
Using more recent data than previously used, the last 10 years, 2013—2022, less December 2022, demonstrate yet again that there exists a relatively strong relationship between gold (CMX) and S&P 500 (r=.790, $p<.01$), and such would be inverse if gold was a hedge against market loss. However, what is thought provoking regarding the relationship between gold and the market is that there is essentially no relationship between their ROIs (r=.014, p=.485). Then again, when we investigate gold as an investment alternative, we quickly find that gold essentially does not stray far from its origin; gold remains almost constant, with only slight increases and decreases *with the market*. But remaining constant is not a strong characteristic for an asset being considered as an investment, especially when "constant" here refers to generating essentially no return. In fact, gold is arguably only of value to those who need to park their monies in somewhat stable mediums—those persons and entities who have more money than time—but even then, gold's value is as likely to decrease with time as it is to increase. In fact, over the last 10 years, the probability of gold's return being less than its previous day was 49.6 percent, P[Current ROI_{Gold}<Previous ROI_{Gold}]=.496, strongly suggesting that the gold's return increases or decreases by chance alone. In lay terms, you could flip a coin each day to determine whether the return would increase or decrease over the prior day and be correct half of the time.

But we still have not necessarily determined whether gold is a good investment. You be the judge. Over the last 10 years, gold has returned a whopping 16.69 percent—*total*—while the market has returned 114.89 percent, 6.9 times as much! Over the full 9 years and 11 months in these analyses, gold has returned a mere 1.68 percent annually. And what makes gold even worse as an investment is the probability of an increase in ROI being nothing more than a coin flip (*c.f.* efficient market hypothesis). Subsequently, gold is no hedge against investment loss nor inflation; and now we know, gold is a poor investment, altogether. In fact, you would be better to bury your money in a Mason jar in the back yard. Refer below to review output over the last 10 years for gold and the market below.



Herbert M Barber, Jr, PhD, PhD serves as the Managing Partner and Chief Investment Officer of Xicon Economics. Intersecting the fields of engineering, finance, econometrics, and statistics, Dr. Barber is an expert in computational financial economics as it relates to the management of random walk theory and navigation of constructs surrounding efficient market hypotheses, especially within assets operating under extreme uncertainty. For over 30 years, he has provided advisory, consulting, and management of large capital investments in the private and public sectors, totaling over $100 billion. Additionally, Dr. Barber has published numerous scientific papers in refereed journals. Dr. Barber holds 5 academic degrees, including two research doctorates.

Xicon Economics provides investment research, financial and investment advisory, and asset management for corporations and investors. We conduct scientific and applied research coupled with advanced statistical and econometric analyses and modeling to render complex financial and economic decisions to ensure investments are realized. We concentrate our practice on increasing output on hedge funds and alternative investments. Additional information regarding Xicon Economics can be found at www.xiconeconomics.com, and additional information regarding Xicon Squared can be found at https://www.xiconeconomics.com/hedge-funds.

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