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The Strategic Case for Investing in Gold

David B. Mazza – Not Yet Published 0



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THE MARKETS

The Strategic Case for Investing in Gold

David B. Mazza — 0

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State Street Global Advisors' 2015 [Year-End Investor Survey](#) found that a slowdown in US corporate profitability, a return of stock market volatility and rising geopolitical risks were the most pressing concerns for Investment Professionals headed into 2016. Since the start of the year, many of these concerns have materialized and investors have turned to gold in search of portfolio diversification and risk mitigation.

Global equity markets began 2016 firmly in a downward trend, with some regions, like Japan and Europe, entering into a bear market.¹ The S&P 500® posted its worst January performance since 2009.² Gold, on the other hand, registered a positive 4% return as volatility dragged most assets lower.³

Turbulent and choppy markets, such as the ones we are witnessing today, present investors with an opportunity to reevaluate the strategic role gold may play in a portfolio. While it may be used tactically during times of elevated inflation or persistent dollar weakness, as we saw after the Federal Reserve's first quantitative easing program, the role of paramount importance for gold is as a strategic diversifier within portfolios.

Gold as a strategic hedge in tumultuous times

There's been no escaping market volatility this year as concerns over China's slowing

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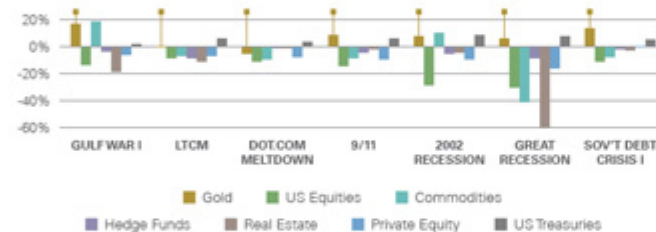
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growth and its ability to manage its financial markets have **spooked investors**. Meanwhile, worries over an oil supply glut continue to weigh on the spot price of crude, increasing worries over rising bankruptcies and defaults in the energy and commodities sector.

The chart below demonstrates how gold has performed during similarly tumultuous times, including the Gulf War, the Great Recession and the demise of the bond-trading hedge fund, Long Term Capital Management (LTCM).

In five out of seven of the events captured in the chart below, gold ranked as either the best performing or second-best performing asset class. By delivering competitive returns during a number of historically challenging times in the market, gold has provided investors with a source of wealth preservation and a means of moderating the market's volatility.

Gold as a Strategic Hedge in Tumultuous Times



Source: FactSet, State Street Global Advisors, from 1/1/1979 to 12/31/2013. Notes: Persian Gulf War I: Q3 1990, LTCM: Q3 1998, Dot-com meltdown: Q1 2001, 9/11: Q3 2001, 2002 Recession: Q2/Q3 2002, US Credit Crisis: Q4 2008/Q1 2009, European sovereign debt crisis: Q2 2010. Past performance is no guarantee of future results. Gold is represented by the spot price of gold.

Gold's potential for portfolio diversification

While the aim of diversification is to hold a wide array of assets that perform differently from one another under various market conditions, data has suggested that equity markets tend to become more closely correlated during periods of market turbulence. Conversely, gold tends to become less correlated with major asset classes during such periods.

Harry Markowitz, the Nobel Prize winning economist, famously called diversification the only free lunch—and gold is one asset with a unique and largely uncorrelated return

GLD SPDR Gold Shares

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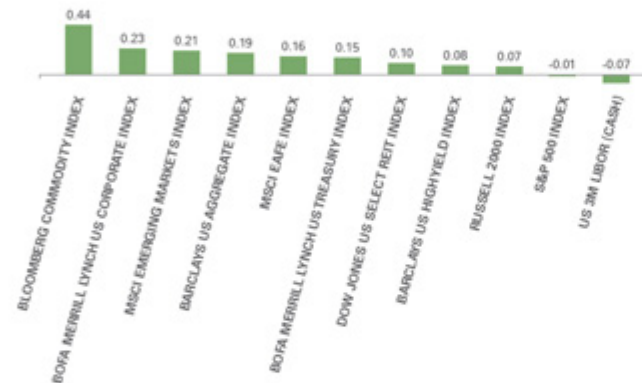
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pattern when measured relative to other traditional asset classes.

The chart below illustrates gold's low correlation to a wide range of asset classes, including other commodities. Adding a separate standalone allocation to gold has the potential to improve the overall diversification of a portfolio, getting closer to that so-called "free lunch."

Gold as a Potential Portfolio Diversifier: Correlation of Returns to Other Asset Classes



Source: SSGA, Bloomberg, as of 12/31/2015. Computed using monthly return data from Dec 1990 to Dec 2015. The correlation coefficient measures the strength and direction of a linear relationship between two variables. It measures the degree to which the deviations of one variable from its mean are related to those of a different variable from its respective mean. Index returns are unmanaged and do not reflect the deduction of any fees or expenses. Index returns reflect all items of income, gain and loss and the reinvestment of dividends and other income. Diversification does not ensure a profit or guarantee against loss.

The takeaway for investors

Over the long run, holding 2% to 10% of an investors' portfolio in gold can improve portfolio performance, according to research cited by the World Gold Council.⁴ At State Street Global Advisors, we agree that investors should consider a long-term strategic allocation in this range.

Adding a strategic allocation to gold within a diversified portfolio can offer a number of potential benefits, including acting as a potential hedge against stock market volatility, and potentially improving diversification given its low correlation with traditional asset classes and other commodities.

Gold ETFs, such as the SPDR® Gold Shares [GLD®], can provide investors with the potential benefits of owning gold without the added costs and logistics of physical ownership. Gold ETFs are designed to precisely track the spot price of gold, providing investors with pure exposure to the yellow metal and a way to directly express their views on the gold market. With GLD, investors can readily integrate and measure gold as a strategic presence in a portfolio that diversifies risk and fits cleanly into a broad asset-allocation framework of investing.

¹Bloomberg, as of 1/29/2016

²Bloomberg, as of 1/29/2016

³Bloomberg, as of 1/29/2016

⁴J.P. Morgan, Gold in asset allocation, July 2012; Mercer, Gold as an asset class for institutional investors, February 2011; New Frontier Advisors, Gold as a strategic asset, September 2006; World Gold Council, Gold: hedging against tail risk, October 2010; World Gold Council; Gold: alternative investment foundation asset; New Frontier Advisors, Gold as a strategic asset for European investors; World Gold Council; Gold as a strategic asset for UK investors, July 2012.

Investing in commodities entails significant risk and is not appropriate for all investors.

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The SPDR Gold Trust ("GLD®") has filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents GLD has filed with the SEC for more complete information about GLD and this offering. You may get these documents for free by visiting EDGAR on the SEC website at sec.gov or by visiting spdrgoldshares.com. Alternatively, the Trust or any authorized participant will arrange to send you the prospectus if

you request it by calling 866.320.4053.

GLD is not an investment company registered under the Investment Company Act of 1940 (the "1940 Act") and is not subject to regulation under the Commodity Exchange Act of 1936 (the "CEA"). As a result, shareholders of the Trust do not have the protections associated with ownership of shares in an investment company registered under the 1940 Act or the protections afforded by the CEA.

GLD shares trade like stocks, are subject to investment risk and will fluctuate in market value. The value of GLD shares relates directly to the value of the gold held by GLD (less its expenses), and fluctuations in the price of gold could materially and adversely affect an investment in the shares. The price received upon the sale of the shares, which trade at market price, may be more or less than the value of the gold represented by them. GLD does not generate any income, and as GLD regularly sells gold to pay for its ongoing expenses, the amount of gold represented by each Share will decline over time.

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Diversification does not ensure a profit or guarantee against loss.

Foreign investments involve greater risks than US investments, including political and economic risks and the risk of currency fluctuations, all of which may be magnified in emerging markets.

Industry funds bear a higher level of risk and tend to be more volatile than more broadly diversified funds because of their narrow focus. All ETFs are subject to risk, including the possible loss of principal. Industry funds are also subject to industry risk and non-diversification risk, which generally results in greater price fluctuations than the overall market.

Because of their narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies.

The use of leverage, as part of the investment process, can multiply market movements into greater changes in an investment's value, thus resulting in increased volatility of returns.

Securities lending programs and the subsequent reinvestment of the posted collateral are subject to a number of risks, including the risk that the value of the investments held in the collateral may decline in value and may at any point be worth less than the original cost of that investment.

Frequent trading of ETFs could significantly increase commissions and other costs such that they may offset any savings from low fees or costs.

Passive management and the creation/redemption process can help minimize capital gains distributions.

Although subject to the risks of common stocks, low volatility stocks are seen as having a lower risk profile than the overall markets. However, a portfolio comprised of low volatility stocks may not produce investment exposure that has lower variability to changes in such stocks' price levels.

A "quality" style of investing emphasizes companies with high returns, stable earnings, and low financial leverage. This style of investing is subject to the risk that the past performance of these companies does not continue or that the returns on "quality" equity securities are less than returns on other styles of investing or the overall stock market.

Commodity funds may be subject to greater volatility than investments in traditional securities. Investments in commodities may be affected by overall market movements, changes in interest rates, and other factors, such as weather, disease, embargoes, and international economic and political developments.

REIT funds may be subject to a high degree of market risk due to lack of industry diversification. REIT funds may be subject to other risks including, but not limited to, changes in real estate values or economic conditions, credit risk and interest rate fluctuations and changes in the value of the underlying property owned by the trust and defaults by borrowers.

Actively managed ETFs do not seek to replicate the performance of a specified index.

ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

There are risks associated with investing in Real Assets and the Real Assets sector, including real estate, precious metals and natural resources. Investments can be significantly affected by events relating to these industries.

Risks associated with investing in the natural resources sector include large price volatility due to non-diversification and concentration in natural resources companies.

Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

The use of short selling entails a high degree of risk, may increase potential losses and is not suitable for all investors. Please assess your financial circumstances and risk tolerance prior to short selling.

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Risk associated with equity investing includes stock values which may fluctuate in response to the activities of individual companies and general market and economic conditions.

Investments in smaller companies may involve greater risks than those in larger, better known companies.

Non-diversified funds that focus on a relatively small number of securities tend to be more volatile than diversified funds and the market as a whole.

Investing in commodities entail significant risk and is not appropriate for all investors.

Bond funds contain interest rate risk (as interest rates rise bond prices usually fall). There are additional risks for funds that invest in mortgage-backed and asset-backed securities, including the risk of issuer default, credit risk and inflation risk. Funds that invest in lower-quality debt securities generally offer higher yields, but also carry more risk. The municipal market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. Interest rate increases can cause the price of a debt security to decrease. A portion of the dividends you receive may be subject to federal, state or local income tax or may be subject to the federal alternative minimum tax.

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