HARD ASSETS ALLIANCE

Why Portfolios Perform Better With Gold

Jeff Clark Precious Metals and Mining Analyst

HARD ASSETS ALLIANCE

Table of contents

It was 2006 and my uncle was getting nervous…

James (name changed) had enjoyed a pretty successful career, amassing quite a nest egg for himself. So when markets started looking overvalued, it gave him serious pause. The economy was officially slowing, and defaults and bankruptcies were rising. Gas prices were high, and debt and the federal deficit were even higher.

Things were not looking good...

Sensing his stress, I suggested he might want some exposure to gold, particularly after hearing he had none other than a few collector coins he'd inherited and long since forgotten about.

He bought several tranches that year. His cost basis ended up around $600/ounce.

You can imagine how he felt a few years later. Not only did gold hedge his portfolio against the turmoil, but he logged substantial gains.

The gold price did fall in October of 2008 along with the market, mostly due to liquidity demands that drove selling of virtually any asset institutional investors could find. But by the end of the year, just two months later, it ended up 5.5%. Almost no other asset did. Even the "safety" of bonds was lacking, with rising defaults and falling prices.

My uncle was happy, of course. But more importantly, he felt empowered. James knew he'd sidestepped what could have been a huge financial setback. His friends provided painful reminders, their portfolios taking years just to get back to even.

What my uncle experienced was not luck. It was not a one-time phenomenon. Gold has been providing that kind of wealth preservation, volatility reduction, and profit potential for centuries.

Hard Assets Alliance, has conducted in-depth research, including several long-term studies, showing empirically that gold has enhanced portfolio performance for decades. This analysis will demonstrate the investing edge investors can gain with an appropriate and meaningful allocation to gold.

The Ultimate Hedge

There's a common adage that one ounce of gold can buy a decent man's suit now just like it could 200 or even 2,000 years ago (a Roman toga, for example). This phenomenon is fairly well known, and underscores gold's ability to maintain its purchasing power.

But gold goes beyond just a store of value. It offers another specific advantage to the modern portfolio—one that otherwise leaves them vulnerable.

Gold is a hedge.

The reason gold serves as a hedge is because it is negatively correlated with most other major asset classes. When they fall, gold tends to rise.

Most investors are content to let bonds, particularly U.S. Treasuries, serve this role. And once upon a time, they did. Bonds rose when stocks fell and vice versa.

But with the increasing financialization of the world, bond prices and stock prices have become more and more correlated, with both falling on economic concerns or in times of limited liquidity.

Furthermore, when bonds fall in real terms as a currency inflates, stocks are by no means guaranteed to rise. So the traditional 60/40 mix provides little protection for currency risks.

Gold, on the other hand, has proven itself a superior hedge. Especially during periods of panic when most investments tend to suffer together.

As shown in the table here, Gold v. Treasuries During Crises, gold provided a stronger hedge than Treasuries in eight of the eleven most recent major large market corrections.

Gold vs. Treasuries During Crises

	Start	End	S&P 500 Index	U.S. Treasuries	Gold
1987 Crash	8/25/87	10/19/87	-33.2%	-2.6%	5.0%
Iraq Invades Kuwait	7/17/90	10/12/90	-17.6%	0.8%	7.6%
Asia Crisis	10/7/97	10/28/97	-6.2%	0.0%	-4.6%
Russia/Long-Term Capital Management Crisis	7/20/98	10/8/98	-18.7%	5.3%	1.2%
September 11, 2001	9/10/01	10/11/02	-22.3%	11.2%	16.6%
Global Financial Crisis	10/11/07	3/6/09	-54.5%	15.8%	25.6%
2010 Euro Zone Crisis and Flash Crash	4/20/10	7/1/10	-14.5%	4.5%	5.1%
U.S. Sovereign Debt Downgrade	7/25/11	8/9/11	-12.3%	3.6%	7.8%
Taper Tantrum	5/22/13	6/24/13	-4.8%	-2.0%	-6.4%
China Worries	8/18/15	2/11/16	-11.8%	3.5%	11.5%
Fed Rate Increases % U.S. - China Trade War	9/20/18	12/24/18	-17.9%	2.5%	5.1%
Covid-19 Pandemic	3/04/20	11/08/20	-12.1%	-2.3%	19..2%
Average			**-16.8%**	**3.4%**	**7.8%**

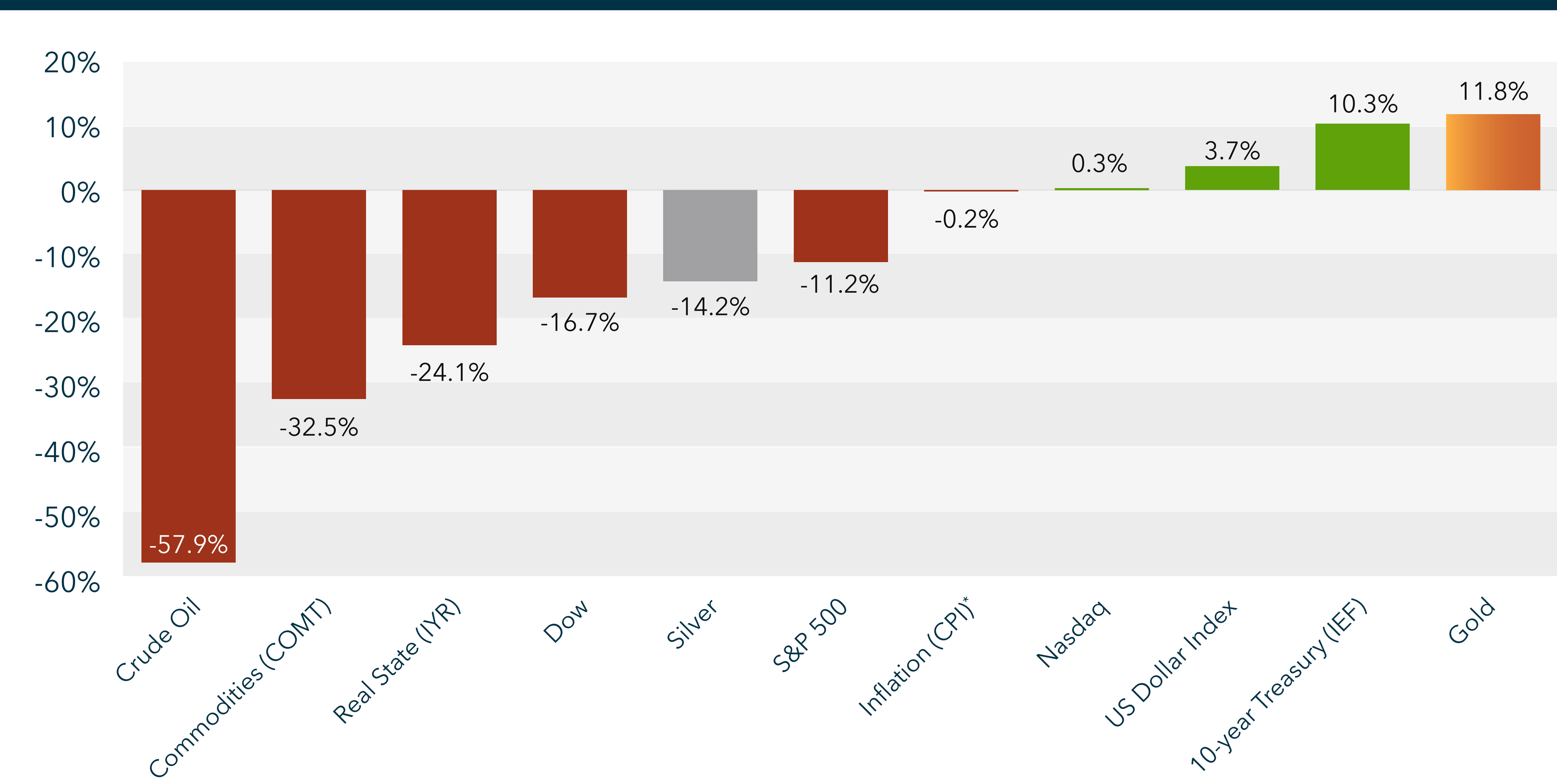
Source: Tocqueville

On average, over the past four decades, gold has risen more than U.S. Treasuries during periods of market turmoil.

What about during the throes of the Covid-19 pandemic?

This chart shows the performance of major asset classes since the pandemic first struck in the US.

Major Asset Classes During Covid-19**



*inflation thru April 2020 **thru May 15, 2020 Source: dailyfx.com, tradingeconomics.com, LBMA, Yahoo Finance, FRED

From **January 1 through May 15, 2020**, gold has outperformed not just all major asset classes during the pandemic, but the 10-year Treasury as well.

This is one distinct advantage gold can offer a portfolio.

> History shows that gold can shield your portfolio against the worst events you're likely to experience.

Let's get more specific and zero in on the two biggest events that tend to damage portfolios…

What Recession? What Crash?

Perhaps nothing can be more harmful to the average investor than a stock market crash or an economic downturn. How gold has responded during these events over recent history can be a good guide to the future.

The following table, Gold During Stock Market Crashes, shows the nine biggest crashes in the S&P 500 since the mid-1970s, when the "gold window" was closed and the price was no longer pegged to the U.S. dollar.

The green boxes mean gold rose during the market crash; yellow means gold fell but less than the S&P 500; and red means it fell more.

Gold During Stock Market Crashes

Dates of S&P 500's Biggest Declines	S&P 500	Gold
Sep 21, 1976 - Mar 6, 1978	-19.4%	53.8%
Nov 28, 1980 - Aug 12, 1982	-27.1%	-46.0%
Aug 25, 1987 - Dec 4, 1987	-33.5%	6.2%
Jul 16, 1990 - Oct 11, 1990	-19.9%	6.8%
Jul 17, 1998 - Aug 31, 1998	-19.3%	-5.0%
Mar 27, 2000 - Oct 9, 2002	-49.0%	12.4%
Oct 9, 2007 - Mar 9, 2009	-56.8%	25.5%
May 10, 2011 - Oct 3, 2011	-19.0%	9.4%
Feb 19, 2020 - Mar 23, 2020	-33.9%	-4.9%
Average	**-30.9%**	**6.5%**

Sources: LBMA, Yahoo Finance

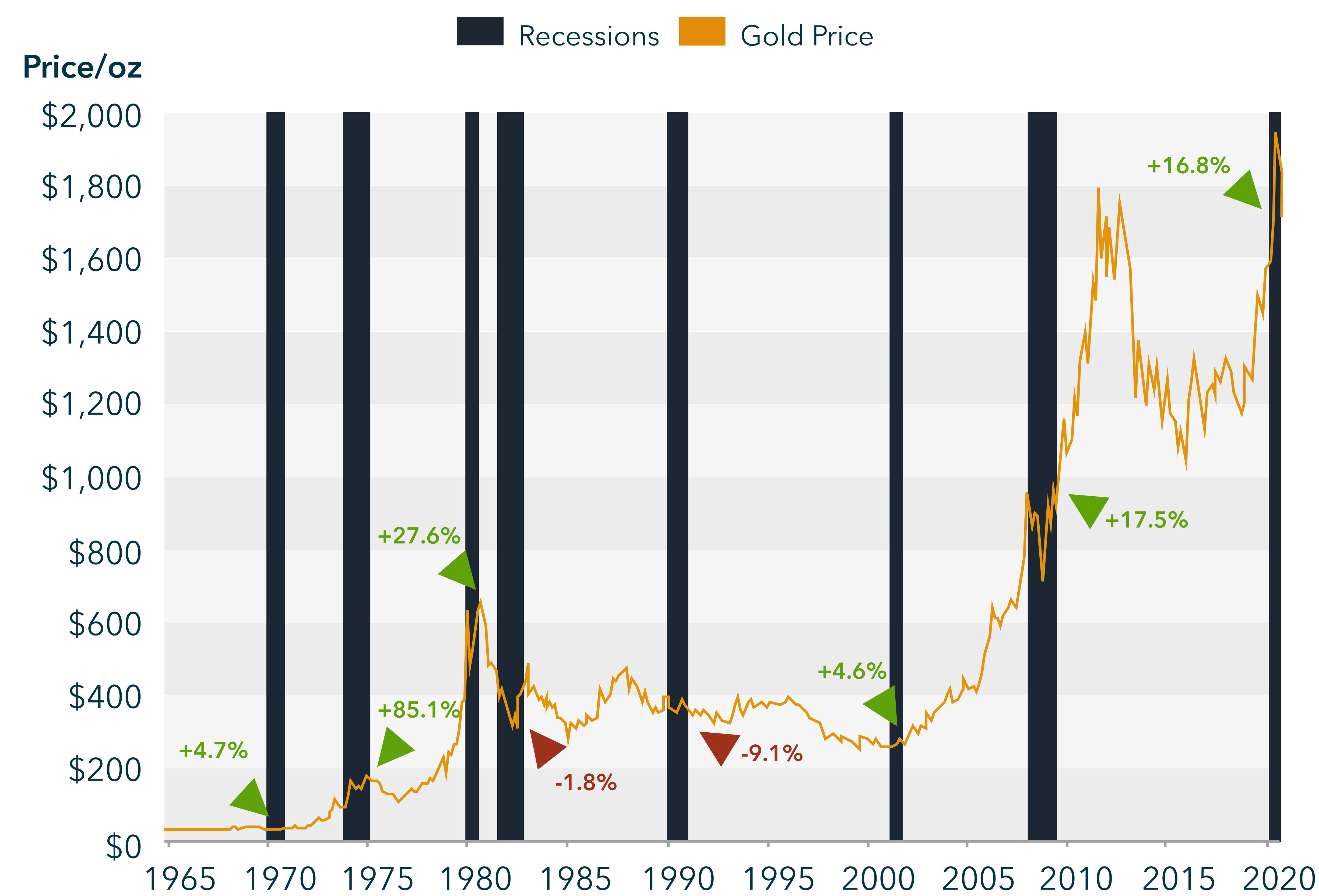
As you can see, gold rose when the S&P crashed in most cases. On two occasions it fell, but much less than stocks, thus preserving portfolio value and enabling investors to potentially rebalance when assets were cheaper.

Gold's only significant selloff **–46%** in the early **1980s**–is not surprising since it occurred just after the biggest gold bull market in modern history.

Gold doesn't automatically rise with every downtick in the stock market. But history shows that investors turn to gold when market uncertainty strikes, and that in short order it has tended to significantly outperform in down markets.

This chart shows all U.S. recessions since 1970 and how the gold price responded.

Gold Usually Positive During Recessions



Sources: LBMA, Thomson Reuters, Federal Reserve

Gold has historically served as a strong hedge during recessions. Since the 1970s, it has risen during most recessionary periods, sometimes dramatically in their wake.

As an investor, your goal is steady and high long-term returns. One way to achieve this is not just to outperform the market when it is rising, but to lose less when it is falling. Gold has proven that during the most common market headwinds, it can outperform.

> If you want an asset that tends to rise when most other financial assets fall, gold is likely to do that more often than not.

But should an investor use gold only as a buffer when they expect bad times?

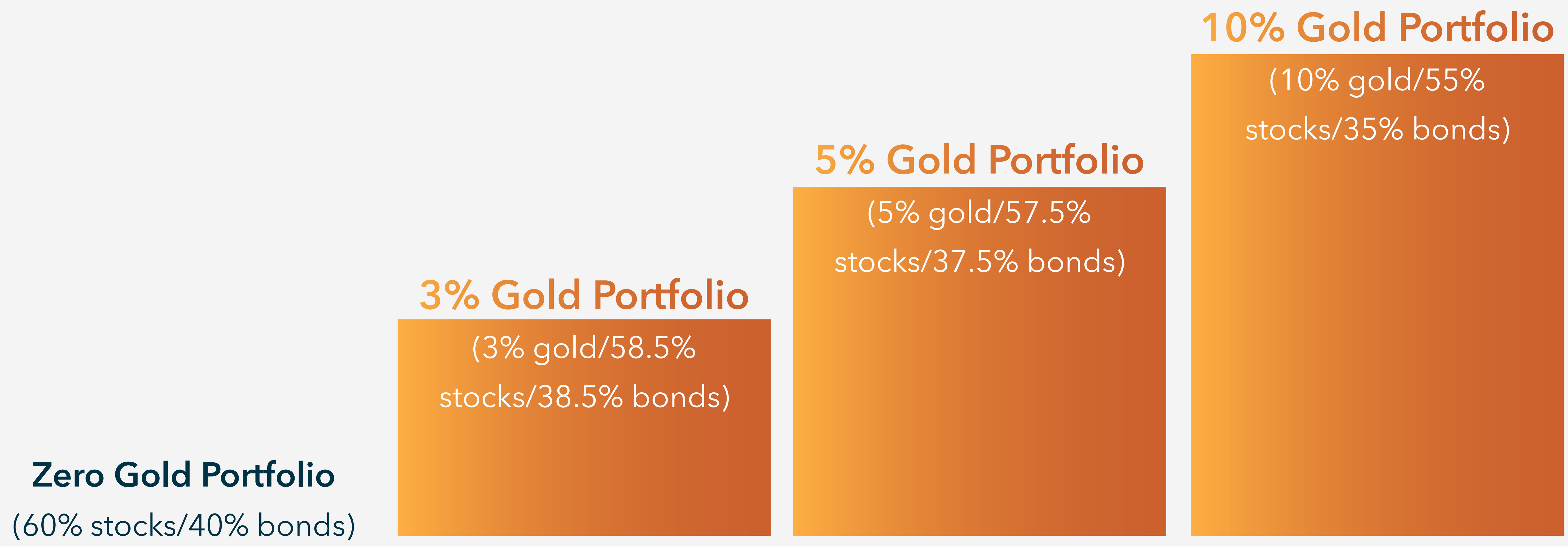
History Holds the Proof

We've seen that gold can often serve as a shield, but does it pay to always have gold in one's portfolio? Back studies provide some clear answers.

We analyzed several scenarios to see how a theoretical portfolio performed with various amounts of gold (including zero). Our base portfolio starts with a standard 60% stock/40% bond mix. We used the S&P 500 for stocks, and the 10-year Treasury to represent bonds. As gold was added the prevailing spot price was used.

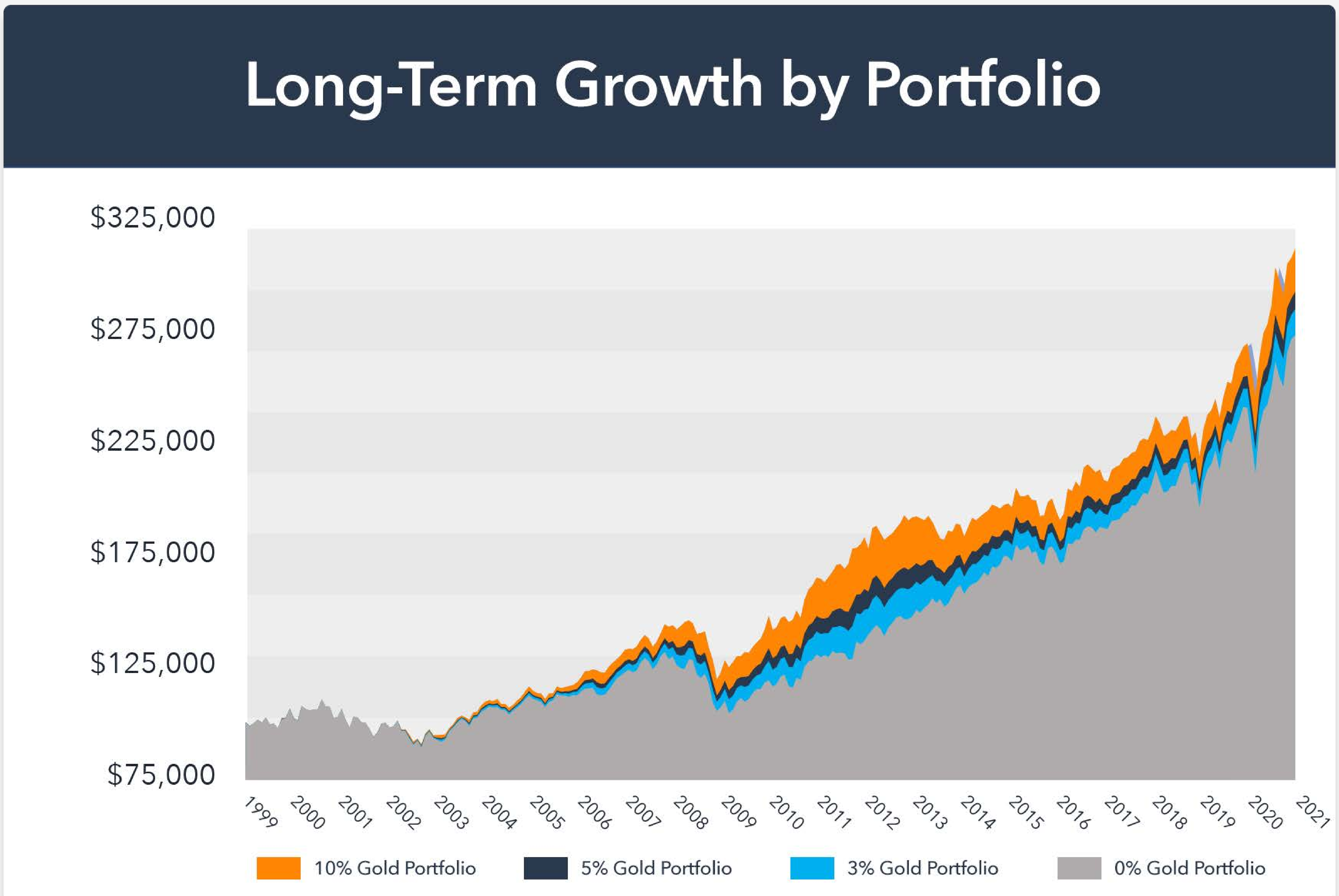
The data runs from January 1, **1999 to January 1, 2021, a total of 22 years.**This includes bull and bear markets in all assets, and thus offers insight into gold's value through a variety of market conditions.

We ran four scenarios. As the amount of gold was gradually increased, the funds devoted to stocks and bonds were reduced in equal percentages.



No adjustments were made for inflation, and exclude commissions, dividends, and tax implications.

This chart shows what the four portfolios experienced on a cumulative basis over the 22+ year period



Sources: LBMA, Yahoo Finance

**2020 prices through May 15, 2020*

The end results demonstrate that **portfolios with a 10% weighting to gold outperformed those with less or zero exposure to gold**.

This outperformance results from combining a steady, long-term preservation of value with solid hedging characteristics.

This data refutes the worn-out and overused advice from the conventional brokerage community that stocks and bonds are sufficient, or that gold is an inert asset. Those claims ignore the historical research that shows while a standard stock/bond portfolio will rise over time, those that include gold will rise more.

The evidence is clear: the value of a portfolio is clearly enhanced by including gold.

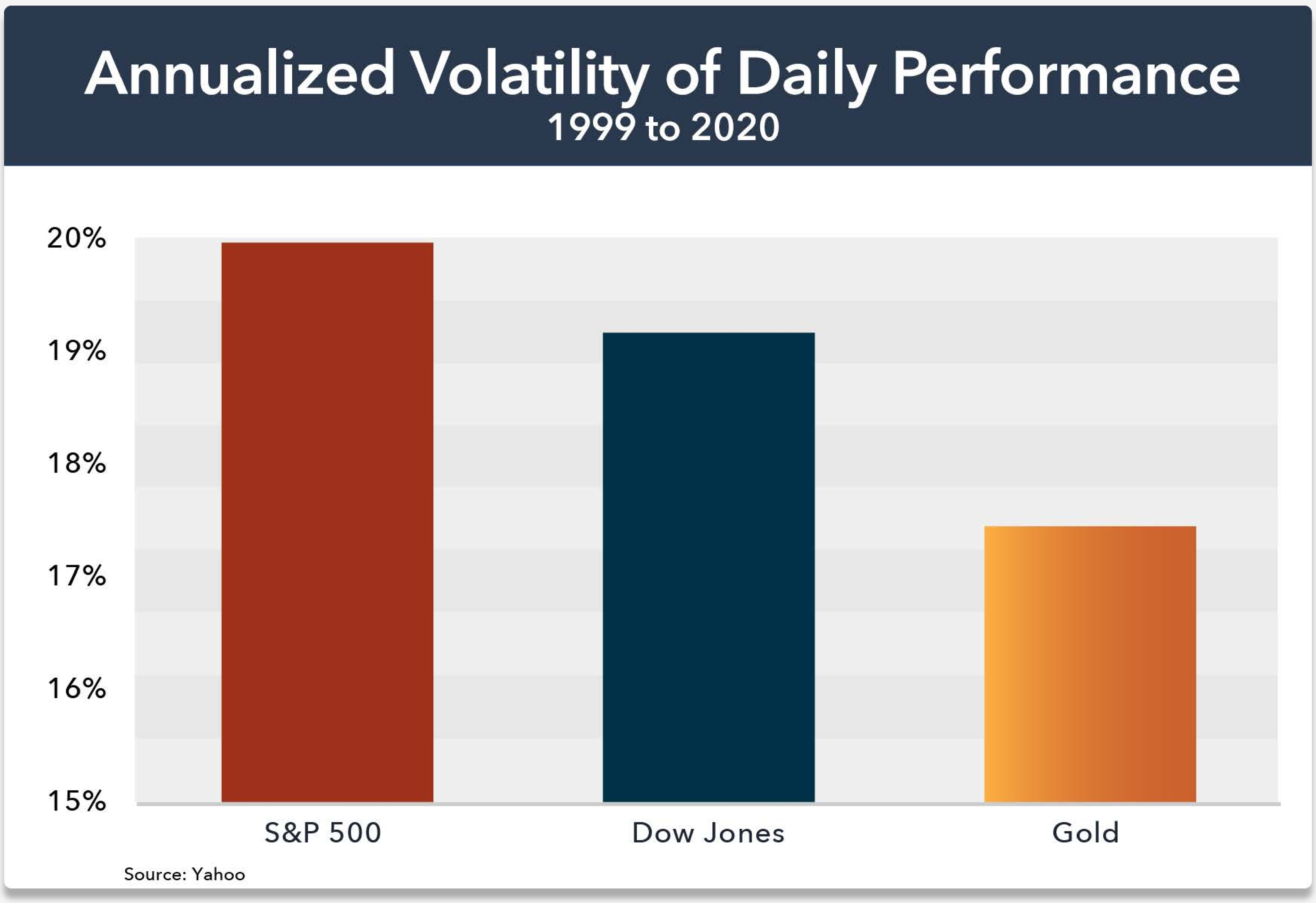
> On a long-term basis, portfolios with gold outperform portfolios without gold.

We're not done. There's one more specific benefit portfolios can gain by adding gold…

The Benefit You Never Saw Coming

More than a shield and more than a performance booster, gold also offers investors lower volatility.

This 22-year study shows the average annual volatility of gold vs. the S&P 500 and Dow.



On average, gold is less volatile than stocks. A portfolio containing gold will see less fluctuation than one without it.

This is valuable, since volatility can sometimes rattle investors and potentially lead to mistakes that could be detrimental to one's long-term goals.

Add gold and you can reduce the volatility your portfolio sees.

Ripping on Paper Gold

By pulling gold too far into the complex world of financial assets—with hypothecation, short selling, and the like—you introduce new counterparty risks.

This "paper gold," like bonds before it, threatens to correlate with other markets and lose its hedging properties, especially against the big events like 2008.

For example, in the highly volatile period of March 2020, there were several days where two major mining ETFs did not track their underlying assets. The funds fell far more than the stocks contained within them, most likely as margin calls on professional traders caused them to dump these funds in order to raise capital.

Holders of these funds, which were meant to provide a lower-cost way to invest in a more diversified set of companies, ultimately foot the bill later when it came time to sell—getting less, not more, for their assets even when demand was high. This caused serious questions—and consternation—among investors in those funds.

While the funds eventually righted themselves, it was a stark reminder to investors that paper derivatives attempting to track an underlying product can be vulnerable in stressful times.

It would not be out of the realm of possibility for the price of a paper gold fund to separate dramatically from the spot price of the metal. In theory, arbitrage would correct this. But, it's often not realistic to take possession of the underlying assets and market them elsewhere, limiting that possibility and further increasing the risk of a disconnect.

That's because delivery is either not an option or is prohibitively expensive. For the few that do offer it, the bylaws generally allow for exceptions in "extreme scenarios" (in other words, when they try to convert from paper to physical on your behalf but are unable to get inventory).

The same goes for many of the other precious metals online platforms that call their programs "allocated," but in reality mean something dramatically different.

For example, if you only share ownership of large bars or a "pool" of gold—maybe held in a vault you cannot locate, or that's owned by the dealer that's incorporated in some quiet island nation with laws that dramatically favor it over you—your counterparty risk is even higher. That kind of setup may sound preposterous, but if you read the fine print you will find it is all too common.

Taken together, this does not sound like an investment that is, by its very nature, designed to be the asset of last resort. In periods of stress it might become crucial to have access to physical gold.

> Gold is a low risk asset. That risk increases if one uses a bullion paper product.

Buy gold for what it's designed for, not a paper representation that introduces risks it is meant to reduce.

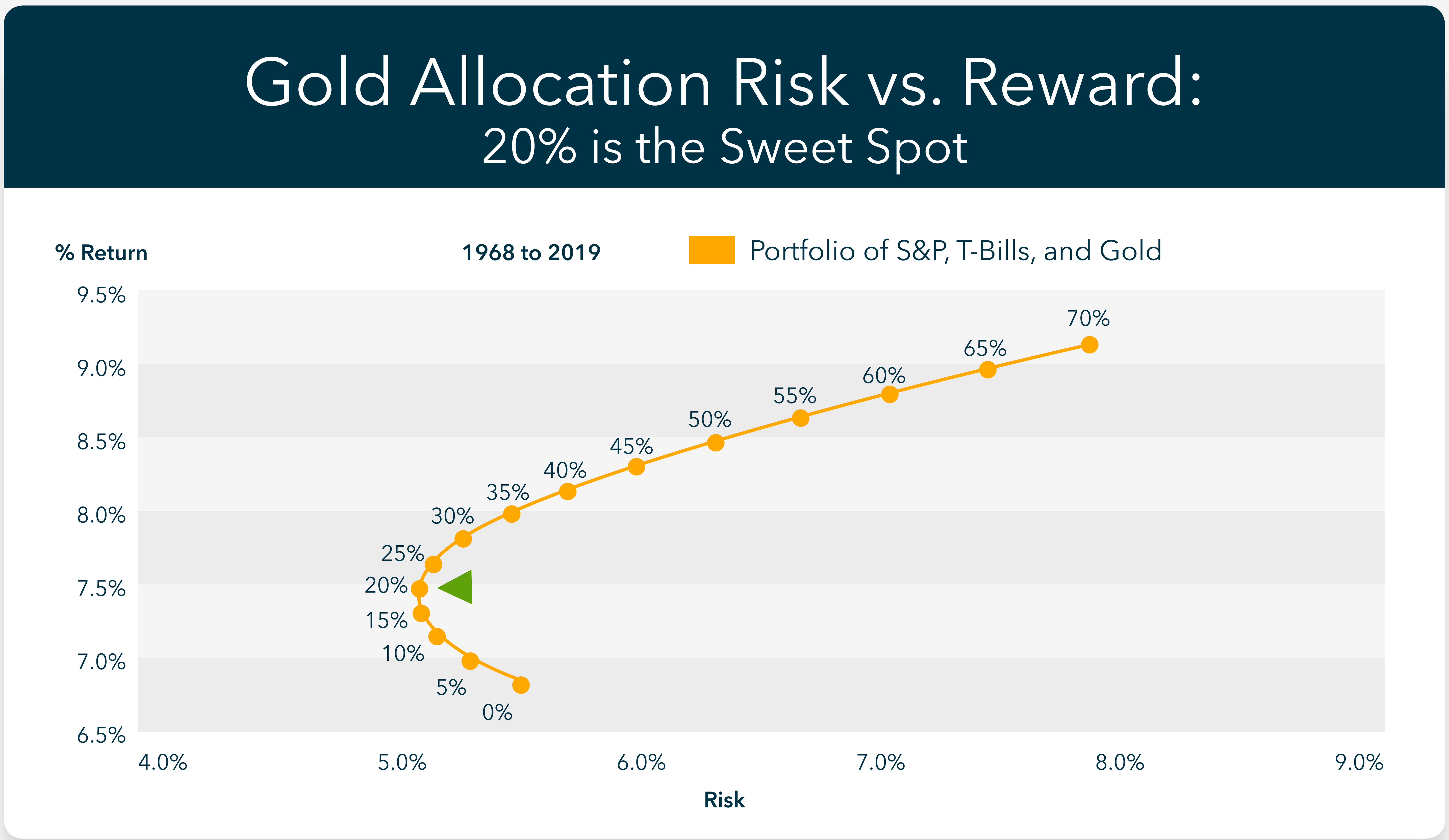
The Allocation Sweet Spot

Now that it is clear one should own gold, and that it should be physical gold, the natural next question is: **How much?**

Researchers at CPM Group completed a study that compared the risk/reward of varying amounts of stocks, bonds, and gold. The study goes all the way back to 1968, when the London Gold Pool ended, and as such provides a long-term view.

It measured portfolios with zero gold all the way up to 70% gold. They started at zero, and as they added more gold they noticed the risk got lower and the return improved. But then a point was reached where the risk/reward ratio began to break down.

Where was that "sweet spot" found between risk and reward?



Source: CPM Group

Portfolios with a **15–20% allocation to gold** have historically offered investors the ideal balance between risk and reward. Anything less, or more, and the risk increases without a commensurate increase in return.

This means that the traditional advice of **5%** or **10%** in gold did not in practice offer the same balance of risk and reward as portfolios with **15%** or **20%** in gold. Even a **25%** allocation has historically performed **better and at lower risk than a 10% allotment**.

Every market is different, and every investor should consider their own tolerance for risk and performance before making a decision to their allocation.

But the message to investors is that on a long-term basis, history suggests as much as a one-fifth to gold provides the maximum risk/reward ratio in a portfolio over one consisting of the traditional 60/40 stock/bond mix.

The Hard Asset Edge

What lies ahead for the economy, markets, and currencies? What lies ahead for you personally and your family?

Since we can only make educated guesses about our futures, the prudent investor holds a meaningful allocation to safe haven assets.

The research shows that not only does gold help reduce volatility and dampen losses in tumultuous periods, but raises overall portfolio performance when maintained as a central part of your asset allocation.

Gold…

- Can hedge against many forms of risk, including short-term market corrections and long-term events like recessions and inflation
- Has improved overall returns while reducing volatility for the last 50+ years
- Historically provides the best risk/reward balance at 15–20% allocation
- Performs more reliably when not in paper form

In a word, gold has provided investors with resilience.

It's time to rethink portfolio allocation and discover how gold can not only enhance wealth, but help weather volatility and crises that potentially lie ahead.

But to take advantage of physical gold and reap all of its benefits, you need a platform designed to help you buy and sell real gold bullion when you need to, on your terms.

A platform that lets you average into a physical position over time, hold on to your gold without ever worrying about if it's secure and gives you the flexibility to take profits, rebalance, or move to cash with the **near-instant liquidity** of a fund, but without all the sacrifices.

And most importantly, a platform that gives you direct ownership of whole coins and bars.

That's where the Hard Assets Alliance comes in…

Every single ounce of physical metal purchased through us is 100% allocated to you—no paper promises or small shares of giant bars you can never claim—stored in your name inside the world's most secure non-bank vaults.

A BETTER WAY TO GOLD

The best of both worlds: Digital access and true ownership.

Hard Assets Alliance was started by long-time investing professionals who saw the potential in gold, but also saw a lot of shortcomings in the gold industry. We set out to make true physical gold a first-class financial asset.

To accomplish this, we had to make it electronically traded, in a competitive marketplace, with good price discovery and a best-execution guarantee.

The gold needed to be liquid like a stock or bond, stored in institutional-class, third-party vaults.

But, all without the compromises of ETFs and fractional bar schemes. By doing this, we could be an agent for our customers and make zero compromises while protecting their wealth.

Our platform is now the standard for the world's largest wealth managers—with nearly **$2 billion in assets under management**—providing real, physical precious metals to their clients.

And it is available directly to investors via Hard Assets Alliance.

By sharing our physical bullion trading platform—with zero hypothecation, zero short selling—between pension funds, institutional investors, high-net-worth wealth management clients, and our direct customers, we are able to leverage this combined purchasing power and offer you some of the **most competitive prices in the world**.

When you open a Hard Assets Alliance account, you get…

Easy, powerful online marketplace

Fund, buy, sell, and manage your holdings, on a refreshingly simple platform.

Behind the scenes a network of the biggest wholesalers, bullion dealers, and refiners compete on every one of your buy and sell orders.

Pricing and execution happens in real-time. It's as easy as buying or selling a stock.

And unlike many other precious metal companies, which actually own the metal you buy and hold it on your behalf, the physical precious metals you buy from the Hard Assets Alliance are fully allocated.

That means the metals are yours, and yours alone.

Five, international world-class vault choices

Choose to store precious metals in one of our non-bank vaults located in **New York**, **Salt Lake City**, **Zurich**, **London**, or **Singapore**.

These vaults are run by the world's most recognized security professionals... **Brinks**, **Loomis**, and **Malca-Amit**... who house gold for international banks, governments, and others who require absolute security and complete auditability—just like we do.

Want to take possession of your gold?
You can.

They are your metals, and you can request delivery from storage any time.

No hidden fees or hassles. Just pay for insured shipping and handling and they will be delivered to you.

By storing bullion with us, you always retain full control over your holdings.

You can also sell your precious metals in our marketplace and have immediate access to the proceeds.

Peace of mind with meticulous audits and replacement insurance

All Hard Assets Alliance holdings are audited daily by our vaulting partners and multiple times per year by an independent precious metals auditing firm.

And unlike the insurance you'd have to buy if you stored your metals at home, all of your metals held with our vaulting partners are insured through Lloyd's of London for their full replacement value at all times as part of our service to you.

Your online account is equally secured, and audited by independent security firms to ensure that it complies with best practice and avoids unauthorized access.

Our data centers have state-of-the-art protection systems with **24/7 onsite staff** and biometric access control. Our infrastructure is managed with **ISO 17799**-based procedures and regularly reviewed in **SAS 70 Type II audits**.

Your data is safe and independent protocols make certain that no one can gain access to your metals without your approval.

Flexible account options for every investor

When you open a Hard Assets Alliance account, you have the same tax-advantaged or estate account options offered by brokers like Vanguard or Fidelity.

Except instead of paper assets, you can diversify your retirement or gift beneficiaries with real, physical gold bullion.

In addition to individual, one-owner trading accounts, we support:

Estate planning tools with Trust and, UTMA account, or companies

Get the flexibility to give the gift of gold with ease. When your beneficiary needs the assets, they can easily be sold or delivered.

Tax-advantaged retirement options with IRAs

Enjoy tax-deferred or tax-free gold investing with traditional, Roth, SEP and SIMPLE account options. Already have an IRA? You can easily rollover funds from a 401k or transfer from an existing IRA.

Business/company accounts

Whether for your small business, a large enterprise, or a "checkbook IRA" own metals with unambiguous title in the name of your company and enjoy multi-user access just like a business bank account backed by gold.

Joint accounts

Add two owners to one account who share full ownership over the assets.

Accounts take just five minutes to set up and can be funded securely and quickly by check, bank wire, ACH transfer, and even cryptocurrency conversion.

You also gain access to helpful tools like the ability to set up monthly deposits via our MetalStream™ program that automatically invests in gold and/or silver–adjust or stop any time.

In short, everything about Hard Assets Alliance was designed to provide the easiest, most secure, most flexible end-to-end solution for investing in physical bullion for the long-term.

Just remember…

There's no substitute for the real thing

Some financial advisors and media personalities insist that buying a gold ETF is the same thing as owning gold. As you now know, it isn't…

> If paper were all anyone needed, then why does every government and central bank on the planet own as much physical gold as they can and keep it locked vaults?

You know the answer…

Real, physical gold is a rare and intrinsically valuable asset that's served as the foundation for economies, currencies, and empires for thousands of years.

Gold is the ultimate backstop. When all else fails, gold is still there. It has retained its value for centuries.

In fact, gold is a "zero risk" asset

As of April 1, 2019, gold has been clarified as a 0% risk asset by Basel III, part of the regulatory framework designed to strengthen banking and capital reserves in response to the 2008 crisis.

In banker-speak, that means gold is a "tier 1" asset. Gold is at least as good as cash on the balance sheet. And it can universally be used as a funding source or backstop against losses in a crisis.

In other words… **gold is money**.

And while it's true gold helps you sleep better at night…

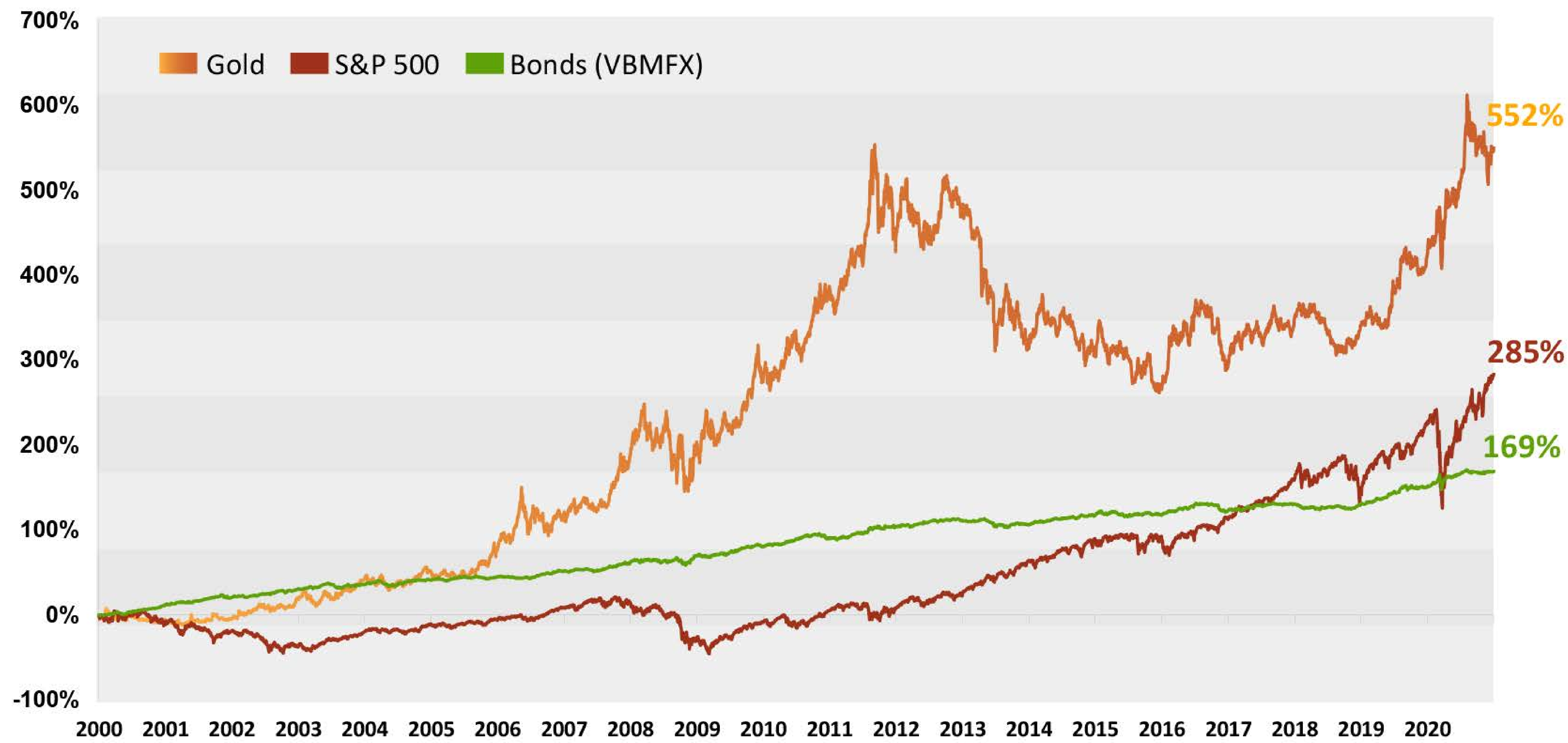
And it's traditionally a capital preservation tool…

Gold offers appreciation potential, too.

In fact, gold has returned **nearly 2x the performance of the stock market** since the beginning of this century...

It's also performed better than bonds…

Gold Has Outperformed Stocks and Bonds Last 21 Years



** As of December 31, 2020
** S&P500 & Bonds with Dividends Reinvested

Source: LBMA, Yahoo Finance

This is all during periods of record growth for each of these assets.

Yet many investors still don't maintain an allocation to gold. Or just see it as a temporary stop during a crisis.

Are you one of them?

With a Hard Assets Alliance account, you get direct ownership of physical gold.

And all the benefits of owning a hard asset with the flexibility of selling it like a stock.

You can take advantage of changing markets quickly…

Add to your holdings when metals are undervalued...

Or rebalance when gold has done its job, by selling with just a few clicks.

Ready to get started?
Open an account today. It only takes a few minutes, but can provide a lifetime of peace of mind.

And if you have questions, we're here to help every step of the way:

1-877-7-ASSETS (877-727-7387)
support@hardassetsalliance.com

Open a Hard Assets Alliance Account

Click here

HARD ASSETS ALLIANCE

Why Portfolios Perform Better With Gold

Jeff Clark
Precious Metals and Mining Analyst

About the Author

An accomplished analyst, author, and speaker, Jeff Clark is a globally recognized authority on precious metals.

The son of an award-winning gold panner, with family-owned mining claims in California, Arizona, and Nevada, Jeff has deep roots in the industry.

An active investor with a love of writing, Jeff has spent decades as metals and mining industry analyst, including 10 years as senior editor for the world-renowned publication BIG GOLD.

He regularly speaks at investment and industry conferences, including Cambridge House and the Silver Summit, among others. He also serves on the board at Strategic Wealth Preservation of Grand Cayman.

And, Jeff provides regular analysis and market commentary to Hard Assets Alliance customers.

Follow him on Twitter @TheGoldAdvisor.

HARD ASSETS ALLIANCE

www.hardassetsalliance.com