Protecting Your Investment Portfolio with Precious Metals

March 27, 2019

By Nick Barisheff

Insurance is a unique product. We all buy it with the hope we'll never have to use it. We carry insurance for our homes, cars and families, but few of us think about insuring our investment portfolios.

Many people are unaware that there are products designed to protect your investment portfolio's value. Professional money managers call buying these insurance-type products a hedge. They hedge through a variety of sophisticated financial instruments that most of us wouldn't or couldn't consider. However, there are hedging alternatives for the average investor.

The easiest way to help protect against a sharp decline in your portfolio's value is to ensure it is diversified and balanced. Most investment advisors recommend this strategy but unfortunately limit their asset allocation to stocks, bonds and money market instruments. While this strategy is helpful during normal market conditions, it is not always an effective way to truly protect your portfolio – especially during a severe economic downturn.

In order to reduce volatility and improve returns, portfolios should contain more than three asset classes.

In total, there are seven asset classes: currency, equities, fixed income, commodities, real estate, precious metals and collectibles. If we eliminate commodities, due to the lack of simple investment vehicles, and collectibles, as they require specialized knowledge, we are left with five asset classes that are readily available. If we plot these asset classes over the past 40 years, real estate has been the top-performing asset class, followed by gold.

Canadian Periodic Table of Investments

Asset class performance from 1972 to 2018

REITs FTSE NAREIT IN CAD — Best performing asset class: **16 YRS**

GOLD GOLD BULLION IN CAD — Best performing asset class: **13 YRS**

STOCKS TORONTO STOCKS TSE/TSX — Best performing asset class: **10 YRS**

BONDS LONG CDN GOVERNMENT TREASURIES — Best performing asset class: **6 YRS**

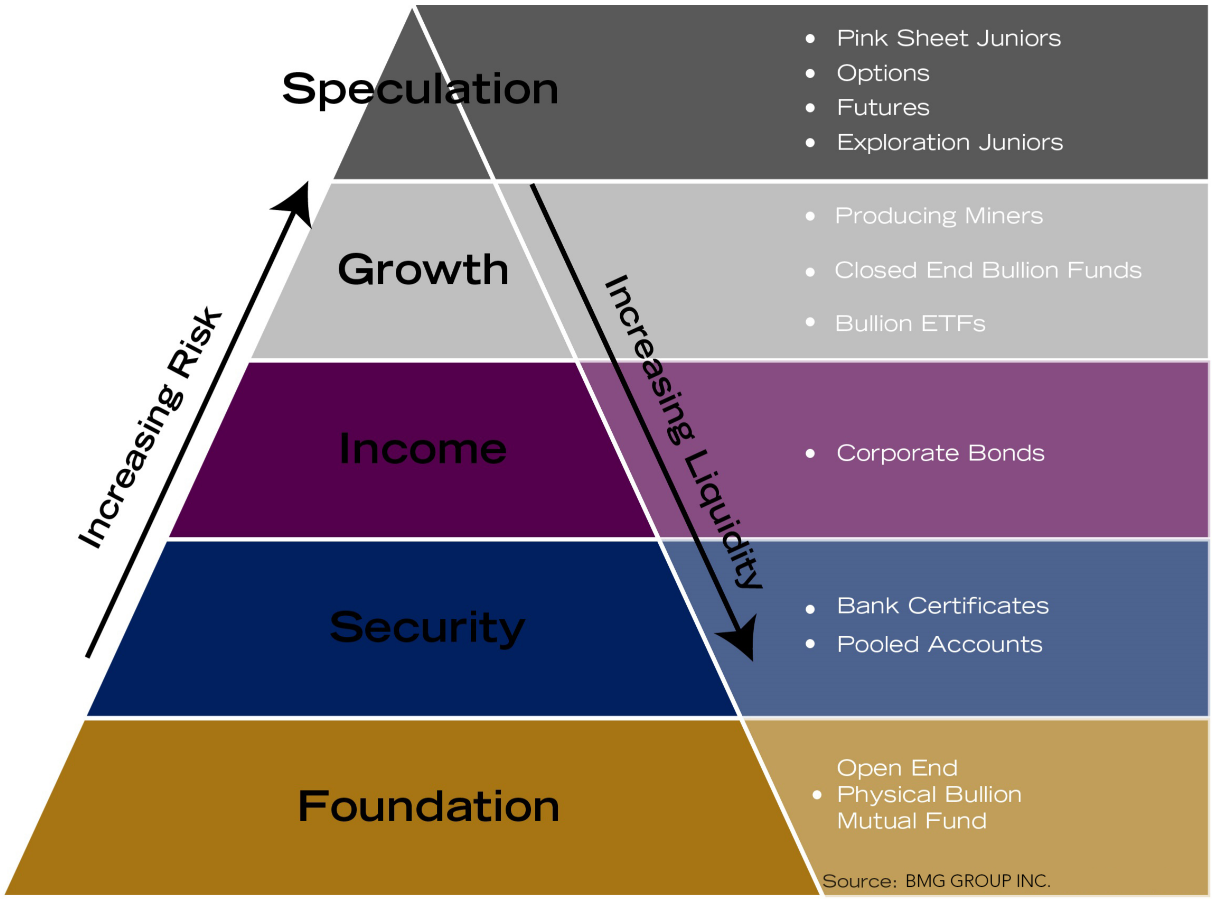
CASH 3 MONTH CDN GOVERNMENT TREASURIES — Best performing asset class: **2 YRS**

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
BEST PERFORMING	GOLD 47.8%	GOLD 73.0%	GOLD 65.4%	REITS 39.9%	REITS 47.8%	GOLD 33.1%	GOLD 48.2%	GOLD 128.5%	REITS 30.9%	CASH 19.3%	BONDS 46.0%	STOCKS 35.5%	REITS 22.0%	BONDS 26.7%	GOLD 18.1%	GOLD 16.6%	BONDS 11.3%	STOCKS 21.4%	CASH 13.7%	REITS 35.1%	REITS 23.3%	STOCKS 32.6%	REITS 6.7%	BONDS 26.3%
↑	STOCKS 27.4%	CASH 5.2%	CASH 8.0%	STOCKS 18.9%	BONDS 23.6%	REITS 29.2%	STOCKS 29.7%	STOCKS 44.8%	STOCKS 30.1%	REITS 7.8%	REITS 36.5%	REITS 26.9%	BONDS 16.9%	STOCKS 25..1%	REITS 17.6%	CASH 8.5%	STOCKS 11.1%	BONDS 15.1%	BONDS 4.3%	BONDS 25.3%	BONDS 11.6%	REITS 23.6%	CASH 5.3%	REITS 15.1%
	REITS 10.5%	BONDS 2.0%	BONDS -4.7%	BONDS 8.0%	STOCKS 11.0%	STOCKS 10.7%	CASH 8.5%	REITS 28.7%	GOLD 15.0%	BONDS -2.1%	GOLD 16.0%	CASH 9.9%	CASH 11.6%	REITS 12.1%	BONDS 17.2%	STOCKS 5.9%	CASH 9.6%	CASH 12.5%	GOLD -1.7%	STOCKS 12.0%	CASH 6.7%	BONDS 22.1%	GOLD 3.9%	STOCKS 14.5%
↓	BONDS 8.1%	STOCKS 0.27%	STOCKS -25.9%	CASH 7.5%	CASH 9.3%	BONDS 9.2%	REITS 6.4%	CASH 11.8%	CASH 13.4%	STOCKS -10.2%	CASH 15.5%	BONDS 9.6%	STOCKS -2.4%	GOLD 12.0%	CASH 9.5%	BONDS 1.8%	REITS 2.2%	REITS -4.7%	STOCKS -14.8%	CASH 9.8%	GOLD 4.1%	GOLD 21.6%	STOCKS -0.2%	CASH 7.3%
WEAKEST PERFORMING	CASH 3.6%	REITS -27.2%	REITS -42.5%	GOLD -22.9%	GOLD -4.8%	CASH 7.8%	BONDS 4.1%	BONDS -2.8%	BONDS 2.1%	GOLD -32.4%	STOCKS 5.5%	GOLD -13.9%	GOLD -14.0%	CASH 10.1%	STOCKS 8.9%	REITS -15.9%	GOLD -22.4%	GOLD -5.5%	REITS -17.1%	GOLD -10.0%	STOCKS -1.4%	CASH 5.5%	BONDS -7.4%	GOLD -1.8%

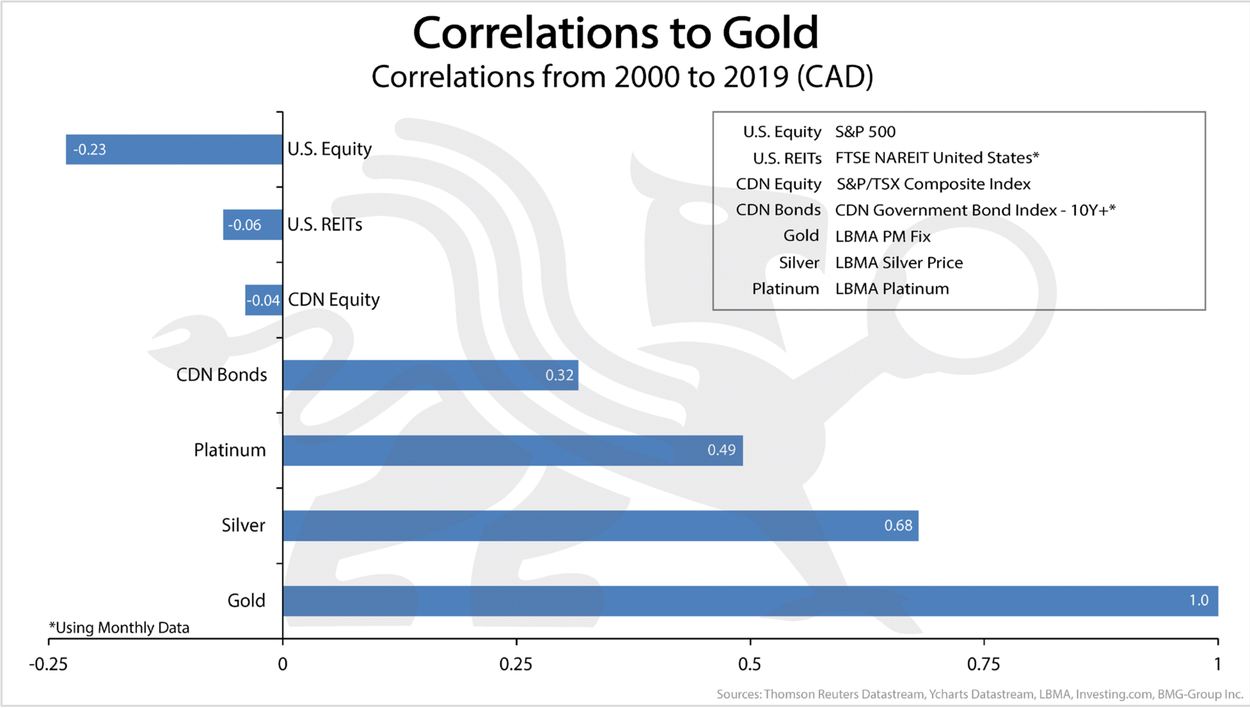
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
BEST PERFORMING	REITS 36.2%	REITS 24.0%	BONDS 12.8%	STOCKS 31.7%	REITS 30.8%	REITS 22.7%	GOLD 24.3%	STOCKS 26.7%	REITS 21.4%	STOCKS 24.1%	REITS 34.2%	GOLD 11.9%	GOLD 30.5%	STOCKS 35.0%	GOLD 22.5%	BONDS 18.1%	REITS 17.6%	STOCKS 13.0%	REITS 38.6%	REITS 22.0%	STOCKS 21.1%	STOCKS 9.1%	GOLD 8.0%
↑	STOCKS 28.3%	BONDS 18.5%	GOLD 6.4%	CASH 4.8%	BONDS 13.0%	GOLD 7.1%	BONDS 11.1%	REITS 13.2%	STOCKS 14.5%	GOLD 14.8%	GOLD 22.7%	STOCKS 9.8%	CASH 2.8%	REITS 8.9%	REITS 22.1%	GOLD 11.6%	STOCKS 7.2%	REITS 10.3%	BONDS 17.5%	GOLD 5.4%	REITS 6.0%	BONDS 7.0%	REITS 4.5%
	BONDS 14.2%	STOCKS 15.0%	CASH 4.7%	GOLD -4.7%	STOCKS 7.4%	BONDS 6.1%	REITS 4.4%	BONDS 9.1%	BONDS 10.3%	BONDS 13.8%	STOCKS 17.3%	CASH 4.3%	BONDS 2.7%	GOLD 6.2%	STOCKS 17.6%	REITS 9.0%	GOLD 5.9%	CASH 1.0%	STOCKS 10.6%	BONDS 3.8%	GOLD 4.4%	GOLD 5.3%	CASH 1.3%
↓	CASH 4.8%	CASH 3.1%	STOCKS -1.6%	BONDS -6.0%	CASH 5.5%	CASH 4.4%	CASH 2.5%	CASH 2.9%	CASH 2.3%	REITS 5.0%	BONDS 4.1%	BONDS 3.4%	REITS -22.4%	BONDS 5.5%	BONDS 12.5%	CASH 0.9%	BONDS 5.2%	BONDS -6.2%	GOLD 9.1%	CASH 0.6%	BONDS 2.5%	REITS 1.9%	BONDS 0.3%
WEAKEST PERFORMING	GOLD -4.1%	GOLD -17.9%	REITS -12.6%	REITS -12.2%	GOLD -2.1%	STOCKS -12.6%	STOCKS -12.4%	GOLD -1.9%	GOLD -3.0%	CASH 2.6%	CASH 4.0%	REITS -30.3%	STOCKS -33.0%	CASH 0.5%	CASH 0.5%	STOCKS -8.7%	CASH 1.0%	GOLD -22.5%	CASH 0.9%	STOCKS -8.3%	CASH 0.5%	CASH 0.6%	STOCKS -8.9%

Sources: libra-investments.com, Thomson Reuters Datastream, reit.com, Ycharts Datastream, BMG Group Inc.

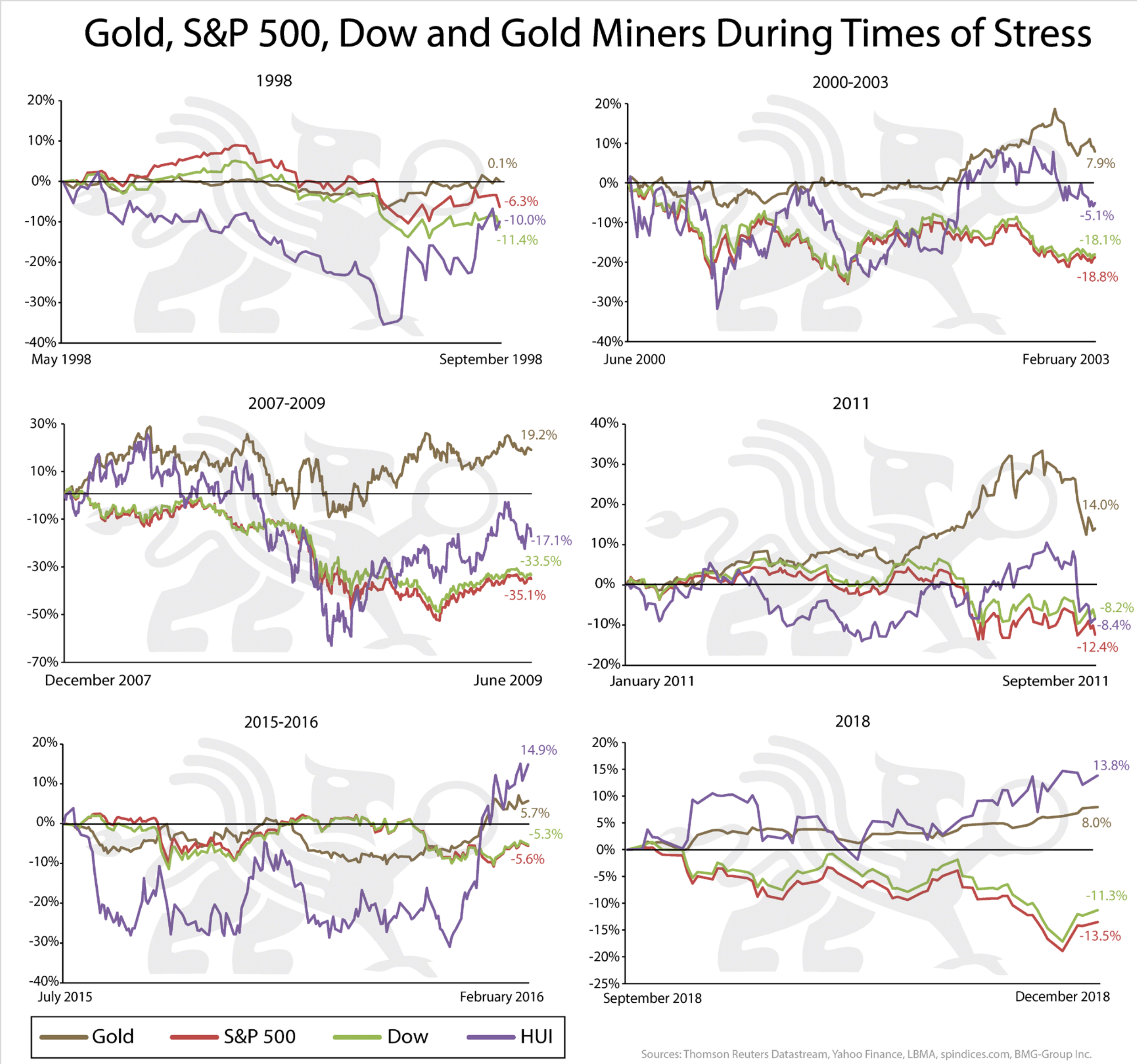
When it comes to gold, there are several investment vehicles available that have different risk/reward relationships. Physical bullion is the most secure and, as of January 2019, the Bank for International Settlements (BIS) has mandated that, for central banks and commercial banks, gold bullion held on an allocated basis is a zero risk asset equal to US dollars and US Treasuries.



Unlike stocks and bonds, precious metals bullion is not anyone's promise to pay, nor is it dependent on anyone for its value. Gold and silver (and to a lesser degree, platinum) are also negatively correlated to other financial assets, particularly the US dollar.



So when the economy does poorly, the value of precious metals generally rises. As a result, precious metals act as portfolio insurance.



Some advisors think that the way to benefiting from precious metals is through holding mining stocks. But investments like mining stocks, traditional precious metals mutual funds, and more complex futures contracts and options carry considerably more risk and volatility. If the economy does poorly, the value of these tends to decline by a greater percentage than the general equity markets even if the price of bullion is rising.

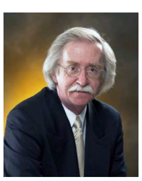
The best way to hedge an investment portfolio is by holding an interest in physical, segregated and fully allocated bullion – real bars of gold, silver and platinum. This can offer a defensive position for the portfolio in difficult market conditions. BMG offers three funds - the BMG BullionFund, the BMG Gold BullionFund and the BMG Silver BullionFund. These open-end mutual fund trusts are a convenient and cost effective way of owning precious metals bullion inside registered plans, as well as direct investments.

For high net worth investors and some institutions, BMG offers direct ownership of a variety of sizes of bullion products. Allocated storage is available in Canada, Hong Kong, Dubai, Singapore, Switzerland and Panama.

Adding precious metals to an investment portfolio is a particularly timely discussion. We have never experienced a simultaneous triple bubble in stocks, bonds and real estate. All three are overvalued and due for a correction. Making matters even worse is the unprecedented amount of debt at all levels - government, corporate and individual. Many of the world's leading financial experts predict a decline worse than 2008, and possibly worse than 1929.

As a result, investors should consider rebalancing their portfolios and increasing or adding precious metals. What percentage you should hold is dependent on a number of factors, and for a full discussion, please review my recent article.

Many ancient civilizations, including the Aztecs, Incas and Mayans, all recognized the value of precious metals and their ability to hold their purchasing power. Gold and other precious metals have been the ultimate store of wealth for over 3,000 years. While it may seem that many North American investors have forgotten these lessons, more and more Canadians are turning to precious metals like gold, silver and platinum to protect their savings and add some additional security to their investment portfolios.



***Nick Barisheff** is the founder, president and CEO of BMG Group Inc., a company dedicated to providing investors with a secure, cost-effective, transparent way to purchase and hold physical bullion. BMG is an Associate Member of the London Bullion Market Association (LBMA) and an Associate Member of the Responsible Investment Association (RIA) as well signatory to the Six Principles of Responsible Investments (United Nations endorsed Principles for Responsible Investment – PRI).*

Widely recognized as international bullion expert, Nick has written numerous articles on bullion and current market trends that have been published on various news and business websites. Nick has appeared on BNN, CBC, CNBC and Sun Media, and has been interviewed for countless articles by leading business publications across North America, Europe and Asia. His first book, $10,000 Gold: Why Gold's Inevitable Rise Is the Investor's Safe Haven, was published in the spring of 2013. Every investor who seeks the safety of sound money will benefit from Nick's insights into the portfolio-preserving power of gold. www.bmg-group.com