An Update on the Precious Metals

The period from when these editorials are submitted to when they appear in this journal is about 4 to 5 months, making timing somewhat problematic. This piece was written in the first week of August, 2020, as gold had closed firmly at a new all-time high above $2,000. I think the chances are good that this advice will still be timely and useful.

One a daily basis, the stock market can bounce around for any reason, and sometimes, no apparent reason at all. But long-term, significant moves, are always driven by basic, fundamental factors. Why have the precious metals broken out into a new bull market?

(1) I believe the most important factor is real interest rates. Gold pays no dividend, so when inflation is 1%, and a risk-free Treasury bill or Certificate of Deposit pays 5%, resulting in a real return of +4% per year, gold isn't competitive. But with the 10-year Treasury paying about 0.53%, fixed-income isn't producing any return either. You are almost guaranteed a loss in purchasing power every year for the next decade. Now add to this that the U.S. Federal Reserve just announced they could accept inflation even higher than their current target of 2%, so real interest rates could become even more negative.

(2) Gold is a storehouse of wealth. When people lose confidence in paper (fiat) money, they turn to gold, which has been money for 5,000 years. The Federal Reserve, and other central banks, can print money at will, with the flick of a computer key. And they do. The US budget deficit this year could exceed $5 trillion, on top of the $20 trillion we already owe. Note that the bond rating service Fitch just revised its credit outlook on the U.S. to negative. It is not a coincidence that the precious metals are breaking out when the U.S. Dollar is weak.

(3) Hopefully things have improved by the time this Editorial appears, but at the time of this writing there has been a breakdown of law and order and civil society in many major cities, with looting, arson and violence. There is talk of defunding the police, or restricting their activity. People are rightfully scared, and turn to gold in times of uncertainty.

Since the beginning of my financial writing, I have recommended that as an insurance policy you keep 5% to 10% of your entire net worth in "portable wealth": art, jewelry, quality collectables, and especially, gold bullion. I believe your best option is 1 ounce U.S. Gold Eagles in your personal possession, stored in a safe deposit box at the bank. But as you have seen in response to the COVID pandemic, banks were closed, limiting access to your assets (your insurance policy). You can keep gold in a safe in your home, but if anyone outside your immediate family knows of this, you run a real chance of being robbed. Gold bullion can be stored in non-bank vaults, or at sites out of the country, but again, access could be an issue. Because gold is chemically inert and does not rust, you can even bury the "barbarous relic" in your back yard.

I would avoid physical silver:

(1) Silver is not a storehouse of wealth. It has been demonetized, and no central bank holds silver in their reserves.

(2) Silver is bulky. It currently takes about 76 ounces of silver to purchase one ounce of gold. Put another way, 10 lbs. of gold, an amount easily stashed in a suitcase, or even your coat pockets, at current prices fetches about $330,000. Ten pounds of silver is worth about $4,350.

There are many ways to obtain access to the precious metals in your brokerage account. The best options are through Exchange Traded Funds (ETFs), such as GLD, which in one-tenth ounce of gold, and SLV, backed by 1 ounce of silver. The miners are leveraged to the price of bullion. For example, if their profit with gold at $1,500/ounce is $300, a 20% increase in the price of bullion to $1,800 could result in a doubling on the miner's profit. Rather than try to pick individual miners, you can consider GDX (an ETF of the largest miners), and GDXJ (an ETF of the junior miners). There are ETFs that move double or even triple an index, and other exotic products. I strongly encourage you to avoid them.

Futures are another option to invest in the precious metals. However, one can easily be seduced by the leverage afforded by futures, which can be 20:1 or even greater. But if you do not employ leverage, or keep it to a minimum, futures are an efficient way to invest in the precious metals.

Editorial for *The American Journal of Cardiology*

0002-9149/
https://doi.org/10.1016/j.amjcard.2020.10.044

I think everyone should consider a position in the precious metals, centered around gold bullion in your personal possession.

Acknowledgments

Dr. Robert Doroghazi is a retired cardiologist who trained at the University of Chicago, the Massachusetts General Hospital, and Barnes Hospital. Warren Buffett said his book *The Physician's Guide to Investing: A Practical Approach to Building Wealth* should be "required reading at med schools." To sign up for a free trial to *The Physician Investor Newsletter,* visit www.thephysicianinvestornewsletter.com

Disclosure

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a general nature, and should not be interpreted as personalized or individualized to your specific portfolio.

Robert M. Doroghazi, M.D.*
The Physician Investor Newsletter, Columbia, Missouri
* Corresponding Author. Tel.: +1 (573) 443-0893.
(rdoroghazi@yahoo.com).