POLARIS
WEALTH ADVISORY GROUP

The Polaris Perspective

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Why Polaris Wealth Is Not Investing in Gold

2015 has been another difficult year for gold investors. The most common way for investors to buy gold is through the largest ETF, GLD. GLD is down 7.74% for the year (through 9/10) and down more than 43% from its August 2011 highs.

Some investors believe that gold is a great investment as an inflation hedge or a "safe haven" against bad markets. But it's important to consider the following:

- **Gold is not a "safe haven" investment:** There are many examples of when the stock market and gold were dropping in price at the same time. The most recent example was when gold dropped more than 25% from March 2008 through October 2008. Although it was less pronounced, gold also dropped during the beginning of the 2000 – 2002 market correction, losing over 16% from February 2000 through April 2001.

- **Gold is not an inflation hedge:** I am an avid student of history. There have been inflationary times when gold prices have gone up and there have been inflationary times when gold values have dropped. For example, gold lost over 23% of its value in 1946-47 when the country experienced 18% and 8% inflation in each year respectively. And in 1968 – 1970, gold lost over 22% while inflation was 4.7%, 6.2% and 5.6% respectively.

Here are additional reasons why Polaris Wealth is cautious about gold:

- **Gold is not a currency hedge:** If you track the U.S. dollar, you will find almost no correlation with gold prices. If you look at the rise and fall of the dollar against other major currencies over the past decade, gold didn't hedge you.
- **What are you really buying:** Warren Buffet is often quoted about gold, calling it an "unproductive asset." In a 2011 letter to investors he suggested that assets like gold "will never produce anything, but is purchased in the buyer's hope that someone else will pay more for it in the future."
- **What is it really worth?:** $300 an ounce? $3,000 an ounce? Gold started its huge ascent in April 2001 at $351 per ounce. Why did it go up to over $1,800 an ounce in August 2011? Why is it now a little over $1,100 an ounce? The reality of it is no one can honestly tell you what gold is worth. Gold's price is all driven by perception and sentiment.

Even if you don't agree with the above statements, here are a few good reasons not to be a gold investor.

First, we are not experiencing inflation. The most recent July Consumer Price figures indicated the index rose a scant 0.1%. Second, the dollar has strengthened against all major currencies over the past year. And finally, the U.S. economy is on stable ground.

There are four pillars to Polaris Wealth's investment strategies: Technical analysis, macroeconomic evaluations, fundamental research, and market sentiment. Unfortunately, gold can only be evaluated based upon technical research and sentiment evaluations. While this would not preclude us from ever investing in gold, we would need stronger reasons to buy.

As you know, our dedicated investment team is constantly evaluating the markets looking for opportunities and evaluating risk. If our clinical research found opportunity to invest in gold in the future, we would do so.

I hope that you enjoyed this e-mail. Please feel free to share it with anyone that you feel could benefit from Polaris Wealth's services.

As always, I welcome your comments and questions.

Sincerely,

Jeffrey J. Powell
Managing Partner