Gold
November 2019

Debunking 5 Common Gold Misconceptions

SPDR® Gold Strategy Team

Today's combination of volatility and lower returns from traditional asset classes means that interest in gold has increased. Our recent conversations with investors have uncovered a number of misguided notions about investing in gold.

If You Think You Know Gold, Think Again Gold has a track record of holding its value or rising when many other assets are falling, adding important diversification to portfolios which has the potential to help risk adjusted returns. Gold's legacy of diversification and low correlation to many other traditional asset classes has also earned it a more tactical reputation with investors as a perceived "safe haven" asset[1] during times of market turbulence and crisis (See Figure 2). And yet, misconceptions about gold persist:

Top 5 Gold Misconceptions

1. Gold does not provide returns in a portfolio – especially long-term
2. Gold is too risky to include in portfolios
3. Gold has no value because it doesn't pay any interest or dividends
4. Gold investing is only effective when inflation is high
5. Gold only appreciates when the US dollar is declining

Misconception 1 Gold Does Not Provide Returns (Especially Long-Term)

Reality – Since the early days of civilization, gold has been used as a currency and a tangible means for storing and preserving wealth. But skeptics of gold often cite that gold does not provide returns, especially on a long-term basis. That claim is just not true. In fact, from August 15, 1971, when President Nixon removed the US dollar from the gold standard, the dollar gold price has increased 7.65% annualized[2] through September 30, 2019. Although gold has not outperformed traditional assets during every market cycle, as illustrated below, it has provided a competitive positive return on a longer term basis relative to many other traditional asset classes.

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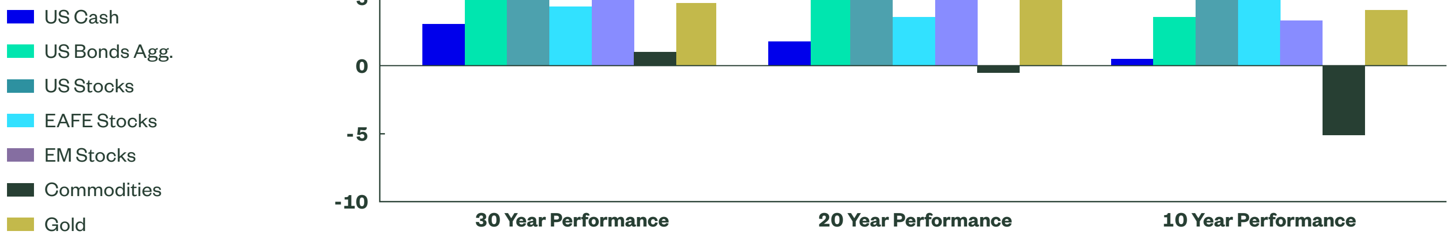
Figure 1
Long-Term Asset Performance

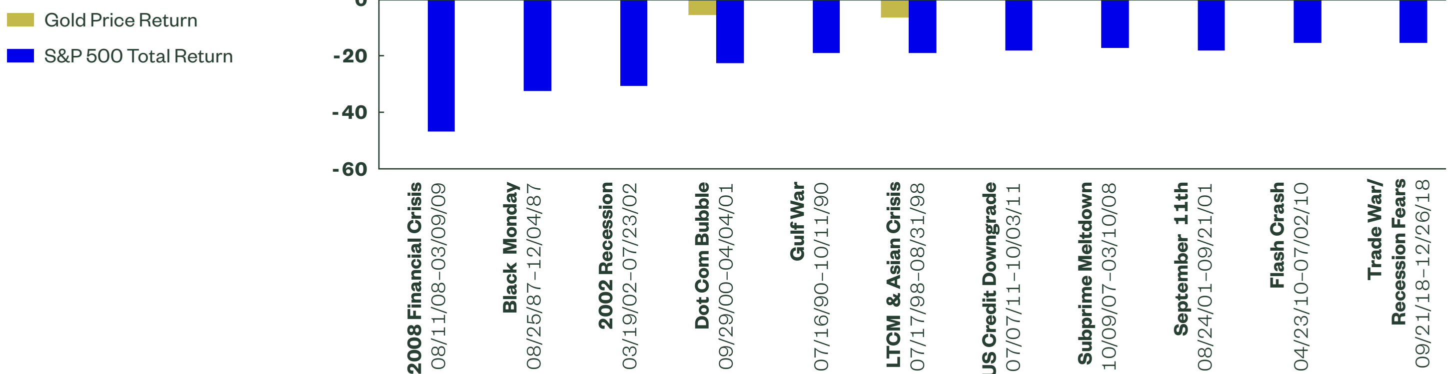


Source: Bloomberg Financial L.P. and State Street Global Advisors, date as of September 30, 2019.[5]

Furthermore, the diversification provided to portfolios with a long term strategic allocation to gold may potentially help investors preserve capital and limit portfolio drawdowns during certain periods of market dislocation – a strategy that may be as critical for long term performance as generating returns during other cyclical market scenarios.

Gold has historically performed well in real terms relative to other asset classes under a wide variety of business cycles, a benefit derived from its low performance correlation with many traditional equity and bond markets. In fact, as highlighted below, during periods of market turmoil and large equity drawdowns gold has provided an average 7.18% return, while the S&P 500 TR Index pulled back - 23.48%. In these types of market downturns, risk is not exclusively about managing volatility, but also about minimizing any permanent impairment to capital – and gold has historically exhibited the potential to perform positively under a multitude of disruptive financial and tail risk events.

Figure 2
Gold Performance in US Equity Drawdowns ≥ 15%

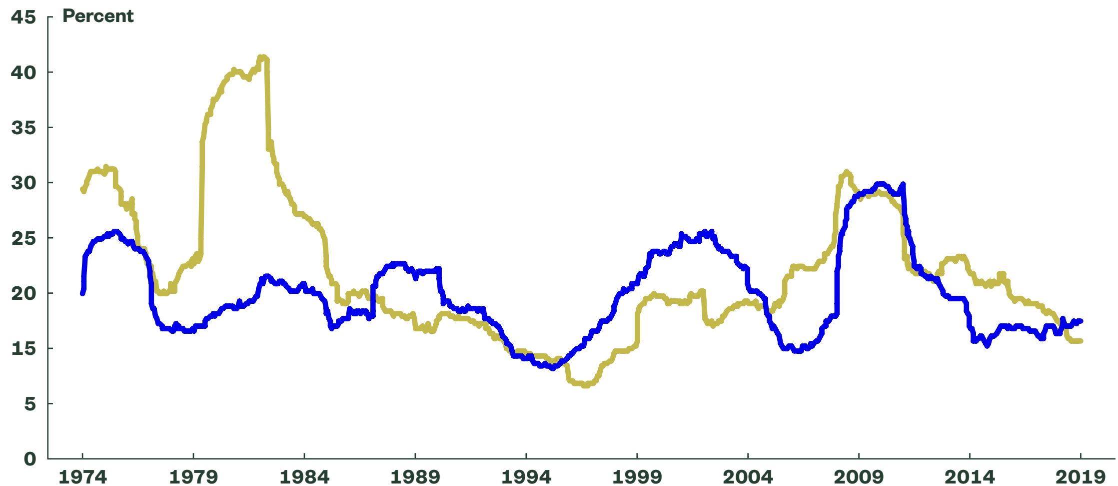


Bloomberg Finance, L.P., State Street Global Advisors. US Equity represented by S&P 500 Total Return Index. Gold = gold spot price. Data from 08/25/87 to 9/30/19. **Past performance is not a guarantee of future results**. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Misconception 2
Gold Is Too Risky to Include in Portfolios

Reality – Although the gold price can sometimes exhibit significant volatility in the short term, it's a different story longer term. Gold's annualized volatility over the last 30 years is 15.44% – not dramatically higher than the S&P 500–which posted a 14.32% annualized volatility over the same period[3]. Additionally, as Figure 3 illustrates, both gold and the S&P 500 Index rolling 3-year standard deviation of weekly returns have generally stayed relatively close to each other. In fact, the price of gold only significantly outpaced the S&P 500 Index in the late 1970s and early 1980s when inflation was high by U.S. historical standards and the Fed was forced to raise the federal fund rate (upper bound) to 20%.[4] In addition, if one considers that indices tend to be less volatile than their individual stock or bonds components, gold's potential volatility may be less of a concern when compared to individual stocks or sectors. In other words, claiming that gold might be overly volatile relative to equities may be misguided.

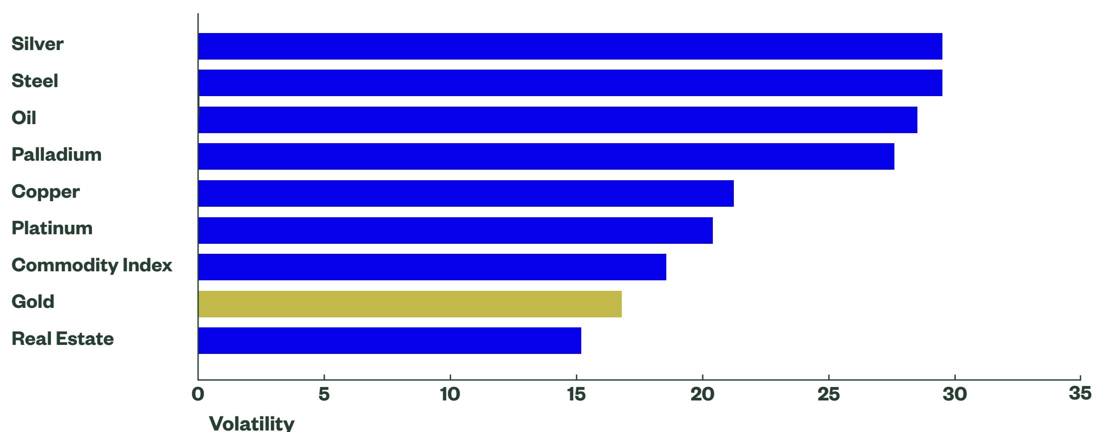
Figure 3
Rolling 3-Year Annualized Volatility of Gold and the S&P 500 Index



Bloomberg Finance L.P., State Street Global Advisors, dates from August 20, 1974 to October 11, 2019. **Past performance is not a guarantee of future results**. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

For investors more familiar with real asset exposures in their portfolio construction strategy, gold has historically provided lower volatility relative to many other precious metals, commodities and real estate.

Figure 4
Gold Versus Other Real Assets 10-Year Volatility



Bloomberg Finance L.P., State Street Global Advisors. Data from September 30, 2009 to September 30, 2019 reflect annualized monthly averages for 120 months. **Past performance is not a guarantee of future results.**[6]

Misconception 3 Gold Has No Value Because It Doesn't Pay Any Interest or Dividends

Reality – It is true that gold bullion does not provide a coupon payment or a dividend, like bonds and some stocks do. That makes gold different from many other traditional investments, and it highlights a fundamental difference in how investors are compensated for their investment. Stocks and bonds often compensate shareholders by providing some combination of income (dividends) and capital appreciation (returns). But gold bullion – the tangible asset – has no shareholders. Rather, gold investors are compensated purely by price appreciation, which is driven by a diverse and unique set of economic and market factors that influence gold's price. This may seem like a trivial detail, but it is an important distinction between gold and some of its rivals that may be growing in importance as investors face lower yields from traditional income strategies.

Figure 5
Drivers of Gold Demand

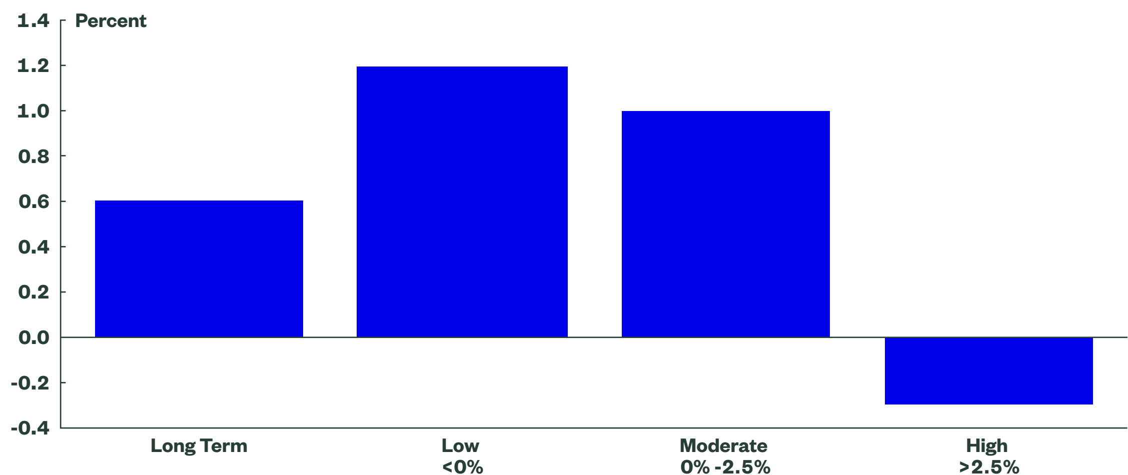
Jewelry	Technology	Investment	Central Banks
53% of average gold demand	8% of average annual gold demand Cyclical driver	27% of average of annual gold demand	12% of average annual gold demand
Cyclical driver	Cyclical driver	Counter-cyclical driver	Non-cyclical driver

Source: State Street Global Advisors, World Gold Council. Average gold demand based on full annual data for the 5 calendar year period from 12/31/14 – 12/31/18. **Past performance is not a guarantee of future results**.

A lower long-term rate environment has created new challenges for asset allocators and traditional income-producing investment strategies. In response, some investors have ventured further out along the risk curve in pursuit of higher yields; but this may not be the right course of action for all. In fact, in this context, gold may look relatively attractive despite it lacking a yield. On average, gold has historically performed well when real interest rates were negative. Additionally, when real interest rates were 2.5% or lower, this also provided an accommodative backdrop for gold to perform well historically. In a low or negative rate environment the opportunity costs associated with gold potentially diminish along with the significance of it lacking a dividend.

Figure 6
Gold's Return in Various Interest Rate Environments

Avg. Monthly Return



Source: Bloomberg Finance L.P. and State Street Global Advisors, as of September 30, 2019.
Past performance is not a guarantee of future results.

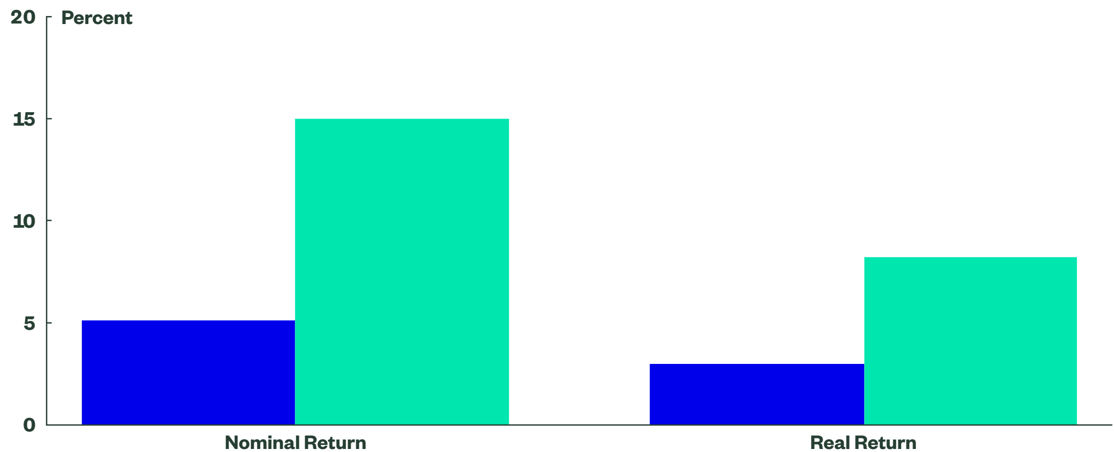
Misconception 4 Gold Is Effective Only When Inflation Is High

Reality – Gold has often been viewed as beneficial only during periods of heightened price inflation – like that experienced during the OPEC oil crisis in the 1970s. But the reality is that gold and inflation don't always move in lockstep. Gold has historically provided positive returns during periods of low and moderate inflation. Inflation clearly plays a role in affecting gold's price, but there are other drivers than simply an increase in prices that influence gold's returns.

Analyzing gold's price performance since 1970, Figure 7 shows that during periods when the annual rate of inflation in the US has been below 3%, the gold price has risen at an average rate of 5.07% per year. But gold has shown its greatest effectiveness in preserving purchasing power when price inflation has been running above 3% a year. During such times, the price of gold has increased by an average annual rate of 15.05%.

Figure 7
Gold in Various Inflation Scenarios

Low inflation (<3%)
High inflation (>3%)



Bloomberg Financial L.P., & World Gold Council. Date start from December 31, 1970 to December 31, 2018.[7]

Misconception 5 Gold Only Appreciates When the US Dollar Is Declining

Reality – Gold and the US dollar ("USD") have a long history of structural and economic ties. But the structural ties were formally severed on August 15, 1971 when President Nixon "closed the gold window", ending the right for central banks to convert their dollars into gold on demand - the prevailing system under the gold exchange standard initiated by The Bretton Woods Agreement. This officially and functionally delinked gold's price from the USD and opened the path for the metal's price to be dictated by open market demand, an event we often refer to as the Initial Public Offering (IPO) of Gold.

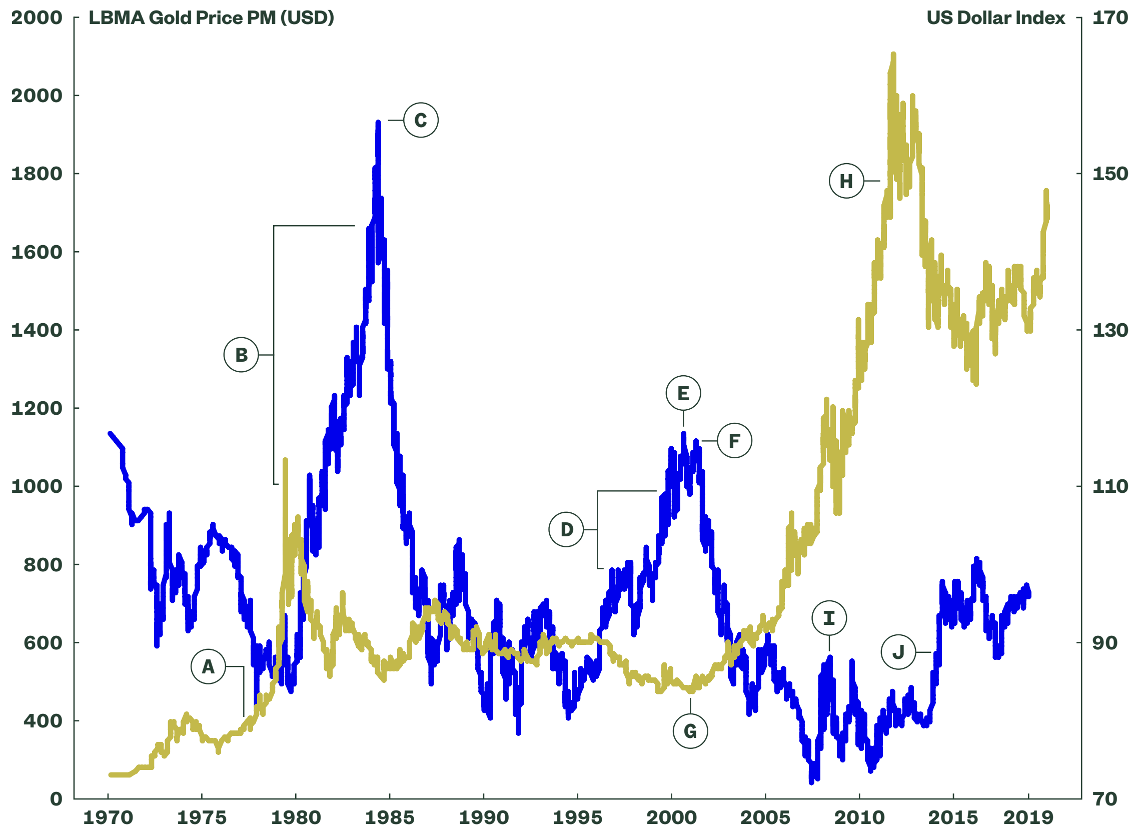
Further, as the value of the USD has fluctuated relative to other currencies around the globe, the price of gold has been impacted, resulting in the commonly cited negative relationship between gold and the USD. But this apparent negative correlation is a key structural link that should not be confused with the economic factors that can also impact the USD and gold prices. This structural relationship has helped support the commonly cited negative relationship between gold and the USD, driving some to believe that gold will appreciate only when the USD declines. As illustrated below, that is not always the case, with the price of gold influenced by several factors beyond the USD.

Figure 8

The Relationship Between Gold, the USD and Key Market Events

LBMA Gold Price PM

Dollar Index Spot



A. 1970s Stagflation

B. Volcker Fed Raises Rates

C. Plaza Accord

D. Clinton-Era Economic Expansion

E. Nasdaq High (March 10, 2000)

F. Sept. 11, 2001 Terrorist Attacks

G. Emerging Markets Golder Era Begins

H. S&P Downgrade of US Sovereign Debt

I. Lehman Brothers Bankruptcy

J. Fed “Tapers” QE

Source: Bloomberg Financial L.P. & State Street Global Advisors. Date range from December 31, 1970 to September 30, 2019[8]

The Takeaway for Investors

Today's uncertain market environment may be an ideal time for investors to rethink many of their commonly held misconceptions about gold, along with the strategic and tactical advantages an allocation to gold may potentially bring to investment portfolios. GLD and GLDM offer access to the potential benefits of the physical gold market and its price movements in a convenient and cost-effective ETF structure. For current information about the performance of gold and the SPDR Gold ETFs, click here.

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Endnotes

1 Assets may be considered "safe havens" based on investor perception that an asset's value will hold steady or climb even as the value of other investments drops during times of economic stress. Perceived safe haven assets are not guaranteed to maintain value at any time.

2 Bloomberg Financial L.P. and State Street Global Advisors, August 15, 1971 – September 30, 2019.

3 Bloomberg Financial L.P. and State Street Global Advisors, September 30, 1989 – September 30, 2019

4 Bloomberg Financial L.P and State Street Global Advisors, date as of September 30, 2019

5 Indices represented follows: US Cash = US 3month Treasury, US Bond Agg = Bloomberg Barclays US Agg Total Return Value Unhedged USD, US Stocks = S&P 500 Index TR, EAFE Stocks = MSCI EAFE Index TR, EM Stocks = MSCI Emerging Net Total Return USD Index, Commodities = S&P GSCI Index TR and gold = LBMA Gold Price PM (USD/oz). **Past performance is not a guarantee of future results.** Performance above does not reflect charges and expenses associated with a fund or brokerage commissions associated with buying and selling exchange traded funds. Performance is not meant to represent the performance of any particular exchange traded fund. This material shows information for indices. An index is unmanaged, is not subject to fees, and is not available for direct investment.

6 Indices representing silver, steel, oil, palladium, copper, platinum, gold, real estate and commodity index above comparison are as follows: silver = Silver Commodity Index, steel = SHFE Steel Rebar Future Contract, oil = Bloomberg WTI Crude Oil Subindex Total Return, palladium = Palladium Commodity Index, copper = Copper Commodity Index, platinum = Platinum Commodity Index, gold = LBMA Gold Price PM (USD/oz), real estate = Dow Jones US Select REIT Index , commodity index = S&P GSCI Index TR and MLP's = Alerian MLP Index

7 Inflation computed using annual US CPI year-on-year changes from 1970 and 2018. For each year on the sample, real return = (1+nominal return)/(1+inflation)-1. Past performance is not a guarantee of future results. Performance above does not reflect charges and expenses associated with the fund or brokerage commissions associated with buying and selling exchange traded funds. Performance is not meant to represent the performance of any particular exchange traded fund. This material shows information for indices. An index is unmanaged, is not subject to fees, and is not available for direct investment.

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Glossary

Bloomberg Barclays Global Treasury ex-U.S. Index – A benchmark designed to track the fixed-rate local currency sovereign debt issued by investment-grade countries outside the US. Bonds must have a remaining maturity of one year or more.

Bloomberg Barclays US Corporate High Yield Index – The index consists of fixed rate, high yield, USD-denominated, taxable securities issued by US corporate issuers.

Bloomberg Barclays U.S. Aggregate Bond Index – A benchmark that provides a measure of the performance of the US dollar denominated investment grade bond market, which includes investment grade government bonds, investment grade corporate bonds, mortgage pass through securities, commercial mortgage backed securities and asset backed securities that are publicly for sale in the US.

Bloomberg Barclays U.S. Treasury Index – US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

Bloomberg Commodity Index – A broadly diversified commodity price index distributed by Bloomberg Indexes that tracks 22 commodity futures and seven sectors. No one commodity can compose less than 2 percent or more than 15 percent of the index, and no sector can represent more than 33 percent of the index.

Consumer Prices (CPI) – Consumer Prices (CPI) are a measure of prices paid by consumers for a market basket of consumer goods and services. The yearly (or monthly) growth rates represent the inflation rate.

Dow Jones U.S. Select REIT Index – A benchmark of US REITs and REIT-like securities that screens for market capitalization, liquidity and percentage of revenue derived from ownership and operation of real estate securities. It is float market cap weighted and quoted in dollars.

LBMA Gold Price – The LBMA Gold Price is determined twice each business day (10:30 a.m. and 3:00 p.m. London time) by the participants in a physically settled, electronic and tradable auction administered by the IBA using a bidding process that determines the price of gold by matching buy and sell orders submitted by the participants for the applicable auction time.

MSCI EAFE Index – An equities benchmark that captures large- and mid-cap representation across developed market countries around the world, excluding the US and Canada.

MSCI Emerging Markets Index – The MSCI Emerging Markets Index captures large and mid-cap representation across 23 emerging markets countries. With 834 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Standard Deviation – Measures the historical dispersion of a security, fund or index around an average. Investors use standard deviation to measure expected risk or volatility, and a higher standard deviation means the security has tended to show higher volatility or price swings in the past.

Important Risk Information

The views expressed in this material are the views of the SPDR® Gold Strategy Team through 9/30/2019 and are subject to change based on the market and other conditions.

Investing involves risk, and you could lose money on an investment in each of SPDR® Gold Shares Trust ("GLD®") and SPDR® Gold MiniShares℠ Trust ("GLDM℠"), a series of the World Gold Trust (together, the "Funds").

ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETFs' net asset value. Brokerage commissions and ETF expenses will reduce returns.

Commodities and commodity-index linked securities may be affected by changes in overall market movements, changes in interest rates, and other factors such as weather, disease, embargoes, or political and regulatory developments, as well as trading activity of speculators and arbitrageurs in the underlying commodities.

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

Diversification does not ensure a profit or guarantee against loss.

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

Important Information Relating to SPDR® Gold Trust ("GLD®") and SPDR® Gold MiniShares℠ Trust ("GLDM℠"):

The SPDR Gold Trust ("GLD") and the World Gold Trust have each filed a registration statement (including a prospectus) with the Securities and Exchange Commission ("SEC") for GLD and GLDM, respectively. Before you invest, you should read the prospectus in the registration statement and other documents each Fund has filed with the SEC for more complete information about each Fund and these offerings. Please see each Fund's prospectus for a detailed discussion of the risks of investing in each Fund's shares. The GLD prospectus is available by clicking here, and the GLDM prospectus is available by clicking here. You may get these documents for free by visiting EDGAR on the SEC website at sec.gov or by visiting spdrgoldshares.com. Alternatively, the Funds or any authorized participant will arrange to send you the prospectus if you request it by calling 866.320.4053.

None of the Funds is an investment company registered under the Investment Company Act of 1940 (the "1940 Act"). As a result, shareholders of each Fund do not have the protections associated with ownership of shares in an investment company registered under the 1940 Act. GLD and GLDM are not subject to regulation under the Commodity Exchange Act of 1936 (the "CEA"). As a result, shareholders of each of GLD and GLDM do not have the protections afforded by the CEA.

Shares of each Fund trade like stocks, are subject to investment risk and will fluctuate in market value.

The values of GLD shares and GLDM shares relate directly to the value of the gold held by each Fund (less its expenses), respectively. 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.

None of the Funds generate any income, and as each Fund regularly sells gold to pay for its ongoing expenses, the amount of gold represented by each Fund share will decline over time to that extent.

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