



WASATCH

CAPITAL MANAGEMENT OF

RAYMOND JAMES®



SEPTEMBER 2019

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All That Glitters Is Gold

- Article by Mark Lazar

There's a lady who's sure, all that glitters is gold. And she's buying a stairway to Heaven. - Led Zeppelin

2019 has been a good year for owners of the shiny metal. Year to date, gold is up [17.53%](#), and is currently outperforming the [S&P 500](#) by roughly one percent. But the past decade has been nothing short of a roller coaster ride, as the chart below illustrates; the 10-year average return for a gold ETF, has been just over 4%, whereas the S&P 500 delivered over 13% for the same period.



Wednesday, August 21, 2019

Let's take a moment to better understand gold and what drives the price/value. A good place to start is its role in regard to our monetary system:

U.S. currency standard [history](#):

- 1792–1834: predominately a silver standard
- 1834–1862: predominately a gold standard
- 1862–1879: fiat paper money
- 1879–1933: a true gold standard
- 1934–1973: a quasi-gold standard
- 1973–present: fiat currency only

Prior to WWI, international trade was based on a gold standard, meaning payments were settled with physical gold. This made perfect sense since there probably wasn't much demand for Italian Lire in the U.S. in the 1800s, nor was there likely much interest in French francs in Tokyo during the same period. Hence, gold was the preferred medium of exchange until 1944, when the [Bretton Woods Agreement](#) effectively passed the baton of international trade from the gold standard to the U.S. dollar, which was crowned the world [reserve currency](#). However, gold was still the basis of currency values since the dollar was convertible to gold at a fixed rate of \$35 per ounce.

The global financial system continued in this manner until 1971, when Richard Nixon officially ended the direct convertibility of U.S. dollars to gold. Since then the U.S. dollar and virtually every other currency on the planet has become a [fiat](#) currency. In other words, the greenback obtains its value not from gold or silver but, rather, our *faith* in it to serve as [legal tender](#). If you look closely at a U.S. dollar bill you will notice it reads, *This note is legal tender for all debts, public and private*, which means U.S. dollars, by law, must be accepted for debts and commerce.

In addition to being a safe haven and long-term store of value for investors, gold is most [a useful metal](#) used in/for electronics 34%, jewelry 38%, official coins, and medals 22%, and dentistry & medicine 6%, to name a few. But despite the practical application of gold, investors flock to the yellow metal

during times of fear and uncertainty. Besides the U.S. dollar & Treasury, gold is the “other” safe harbor investment. To make matters worse, approximately 50% of sovereign debt issued outside of the U.S. carries negative yields. To that point, on 8/16/19 the Swiss 10-year bond was issued with a negative 1.09% yield, meaning an investment of F100,000 Swiss francs today would be worth less than F90,000 Swiss francs in ten years. Gah! It’s not surprising then that foreign investors are looking across the pond at greenbacks as well as gold, both of which appear relatively attractive compared to a negative yield bond.

Gold is oftentimes considered an inflation hedge. We disagree as there is plenty of evidence to the contrary. However, evidence does suggest that gold tends to move counter to loose or expansionary monetary policy, which oftentimes does lead to inflation, but not always. This makes sense since tight monetary policy (shrinking the [money supply](#), or [M2](#)) makes the dollar more valuable. Conversely, loose monetary policy (expanding the money supply) does the very opposite.

We don’t have a crystal ball, but sure wish we did. However, if central bankers continue to practice monetary chicanery (i.e. reckless currency devaluation), gold will likely continue to move higher.



Our team is growing!!!

Please welcome Beth Winter, Client Service Associate

Beth joins Wasatch Capital Management or Raymond James with nearly 20 years of industry experience, we are glad to have her onboard.

Wasatch Team Updates



Mark

Mark and Savina and friends enjoying an evening cruise on the boat in Hayden, Idaho.

Morgan

Morgan standing in front of a Paul Revere statue in Boston, MA over Labor Day weekend.



John

John on a Labor Day trip to the Snake River outside of Jackson, WY

Melissa

Melissa out for a hike in the Uinta Mountain Range.





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