



Refresh & Simplify
Your Financial Life

Newsletter

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Pomegranate Financial

Gold & Silver: What are they good for?

Many conservative talk shows include advertisements regarding gold and silver. They also at times focus on the 'great' gold standard in history, and the future risk of the dollar collapsing.

When you hear something repeatedly - it makes you wonder and it can often stick. Maybe you think gold/silver are safer if the something terrible happens to the economy. Whether it is fear, greed, or security that is the motivation: gold and silver are often in the picture.

Some of the following beliefs (whether true or not) are said:

- "Gold/Silver is going to go up when the economy crashes, and therefore my investment in Gold/Silver will do great!"
- "Silver/Gold is tangible and it has passed the test of time."
- "Gold is something I can easily barter in a desperate end of the world type of scenario."
- "Gold is something you can store and will likely not lose its value over time."

Let's take a look at gold and silver, their history, their taxation, and their viability as investments.

Gold and Silver - they are rare commodities. They have some usefulness to them through industrial applications.

Are gold and silver appropriate investments?

What can you expect of gold and silver investments?

First off - Gold produces nothing. It is either stored or it is used in materials or used as jewelry. Therefore, it will not produce dividends like stocks. You either sell it for its value or for its use.

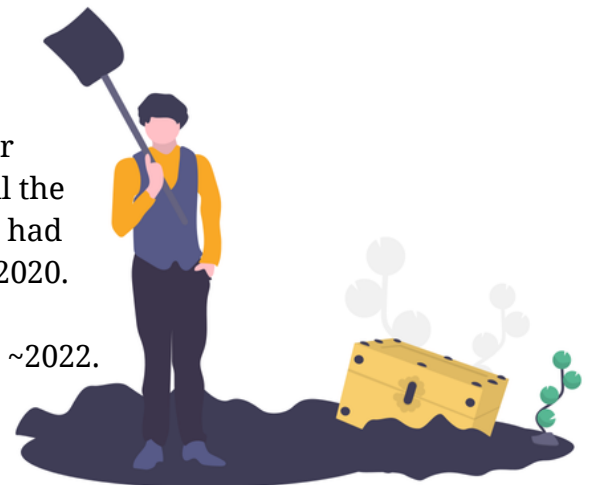
Certainly, gold is malleable and will not corrupt, but it will sit there in your safe.

Does gold hedge against inflation?

Yes and No: Gold and silver have kept up with inflation if you go far back to its heyday in the 1970s. However, from the early 1980s until the Great Recession in 2008 gold did not even keep up with inflation. It had a good run of 3-4 years and then was flat for nearly a decade until 2020.

Inflation (based on Consumer Producer Index): 3.87% from 1970 to ~2022.

The data below reflects the following from ~1970 to ~2023:





Inflation Adjusted Gold Price



Non-Inflation Adjusted Gold Price



Inflation Adjusted S&P 500



Non Inflation Adjusted S&P 500

And then there's taxes:

Gold is a collectible and therefore the physical holding of it can be taxed as a collectible. Gold ETFs and other types of Gold funds can/may be taxed differently. If you purchase gold physically and then sell it for a gain, then you will be subject to capital gain taxes.

Specifically, if it's sold within a year of holding it then it will be taxed at your ordinary income rate (this is true for almost all short-term capital gains).

However, if you sell it after holding the physical gold for a year, then it could be taxed at a maximum rate of up to 28% (instead of the maximum 20% for most long-term capital gains). That is potentially an increased rate of 8% just for being a collectible/gold.

Gold creates additional complexity with taxes, specifically if it's a long-term investment and precisely because the IRS, in their own words, consider it a collectible (not an investment) which is why it is taxed differently.

"You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what that's worth at current gold prices, you could buy all - not some - all of the farmland in the United States. Plus, you could buy ten Exxon Mobils, plus have \$1 trillion in walking-around money. Or you could have a big cube of metal. Which would you take? Which is going to produce more value?" - Warren Buffett

To summarize - gold and silver are poor investments, especially in comparison to investing in the largest companies in the United States. The long-term gold/silver performance has varied, tax-wise they create more complexity and potentially more tax. In my opinion, there is little reason if any to own them unless you are trying to time the gold/silver market and thus take unnecessary risks.

Gold may provide diversification, and appears to do so in times of great uncertainty (ex. leaving the gold standard, the great recession, and Covid-19). Yet, I would argue gold has little value other than the perspective of it's exchange rate to another currency. Bonds and stocks reflect the value of a company with buildings, machinery, a work force, etc. Gold/silver reflect an exchange rate into jewelry, dollars, or box of metal.

I would argue that in an 'end of the world' scenario I would rather not own gold and silver since guns and ammo will dominate, and not necessarily those who own gold/silver. I would bet that cigarettes and alcohol would be more valuable in that 'scenario' than gold.

"(Gold) gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head." - Warren Buffett



If you are not convinced that gold is a poor investment, then please email me with your questions, doubts, or concerns. I am happy to talk and also provide you additional articles. I would be happy to hear your thoughts.

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