How Much Gold Should I Own in My Portfolio?

January 1, 2025

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Key Takeaways

- Sprott[1] believes a 10-15% allocation to gold and gold related equities is an important component of a well-diversified portfolio.
- We view physical gold as a strategic allocation and gold-related equities as a useful tactical allocation. We believe that gold and gold-related equities should constitute 10% and 0-5% of a portfolio, respectively.
- Physical gold has the potential to provide solid returns and diversification. Gold's robust liquidity and historic resilience make it a valued asset during times of economic stress. Because of this, we suggest that gold is a fixed income alternative and believe it has a place in investment portfolios.
- Gold-related equities can offer leverage via the gold price and potential growth from new discoveries or production. As these equities can be highly cyclical, we believe that they should be purchased when undervalued and sold when in high demand and overpriced.

Breaking it Down

The question we most frequently encounter from investors is, "How much gold exposure should I have in my portfolio?" The exact percentage of physical gold and gold equities in an investment portfolio depends on several factors including an investor's risk tolerance, investment objectives, time horizon, income requirements and overall financial situation.

We believe 10-15% of a diversified portfolio in gold and gold-related equities should look like:

- 10% to physical gold, typically the more conservative option in a gold allocation. We believe physical gold provides a store of value and a hedge against systemic risks.
- 0-5% to gold-related equities. This is generally considered the more aggressive option in a gold allocation, aiming to offer leverage to gold prices and the possibility of greater risk/return potential.

[1] In each instance, "Sprott" refers solely to Sprott Asset Management USA, Inc., an investment adviser registered with the SEC. SEC registration does not imply a certain level of skill or training.

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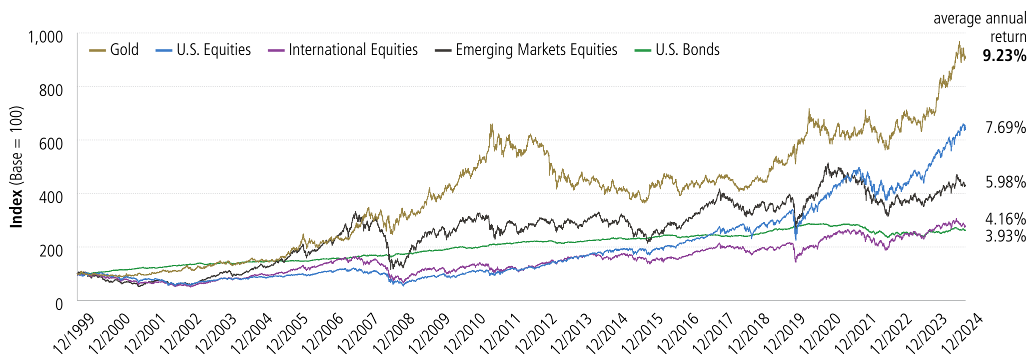
How Much Physical Gold and Why?

Sprott advocates for a permanent strategic 10% position in physical gold for diversified portfolios due to the following reasons:

1. Historic Gold Returns

Since the U.S. abandoned the gold standard in 1971, gold's price, measured in U.S. dollars, has seen an annual growth rate of 8.10% (as of 12/31/2024). Notably, gold has outperformed many significant asset classes since the start of this century by returning 9.23% per annum.

Figure 1. Gold Has Outperformed Other Asset Classes (1999-2024)

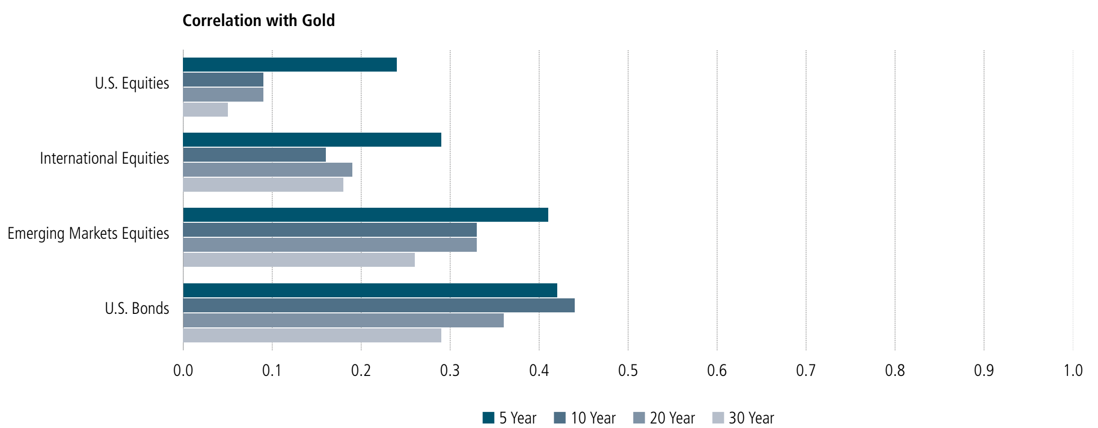


Source: Bloomberg. Measures period from 12/31/1999-12/31/2024. Gold is measured by GOLDS Comdty Spot Price; U.S. Equities are measured by the S&P 500 Total Return Index; International Equities are measured by the MSCI EAFE Index; Emerging Markets Equities are measured by the MSCI Emerging Markets Index; and U.S. Bonds are measured by the Bloomberg U.S. Aggregate Bond Index. **Past performance is no guarantee of future results.**

2. Diversification

Gold's addition to a portfolio offers diversification, a key principle of effective investment management. Gold often behaves independently from stocks and bonds, sometimes exhibiting a negative correlation. This implies that gold's value might increase when stocks and bonds lose value.

Figure 2. Gold Has Low Correlation* to Other Asset Classes



*A correlation of 1.00 indicates perfect correlation. Numbers below 1 indicate that the asset class is not fully correlated and will not move in tandem with gold. The lower the number, the lower the correlation.

Source: Bloomberg. Measures 30-year period from 12/31/1994 to 12/31/2024. Gold is measured by GOLDS Comdty Spot Price; U.S. Equities are measured by the S&P 500 Total Return Index; International Equities are measured by the MSCI EAFE Index; Emerging Markets Equities are measured by the MSCI Emerging Markets Index; and U.S. Bonds are measured by the Bloomberg U.S. Aggregate Bond Index. You cannot invest directly in an index. **Past performance is no guarantee of future results.** Asset allocation or diversification does not guarantee investment returns and does not eliminate the risk of loss.

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January 1, 2025

3. Store of Value

For thousands of years, gold has been recognized as a store of value, a belief that continues today. As a physical commodity, gold has intrinsic value, unlike paper money or digital assets. Gold is traditionally viewed as an inflation hedge, maintaining its value or even appreciating during times of inflation, when currency value tends to decline. In periods of economic turbulence or geopolitical uncertainty, many investors turn to gold as a "safe haven"[2] asset. For investors in countries with volatile or weak currencies, gold provides a way to address currency devaluation.

Figure 3. Gold as an Alternative Currency

Spot gold's average performance, measured in the world's five leading fiat currencies, has been positive in 8 of the past 10 years/periods.

Year	Gold in Canadian Dollar	Gold in U.S. Dollar	Gold in Euro	Gold in Yuan	Gold in Yen	Gold's Average Performance
2024	38.09%	27.22%	35.64%	29.79%	41.81%	34.51%
2023	10.58%	13.10%	9.69%	16.87%	21.67%	14.38%
2022	6.84%	-0.28%	5.90%	8.32%	13.60%	6.88%
2021	-4.24%	-3.64%	3.51%	-6.53%	7.39%	-0.70%
2020	22.57%	25.12%	14.85%	16.82%	18.95%	19.66%
2019	12.70%	18.31%	20.99%	20.49%	17.21%	17.94%
2018	6.38%	-1.58%	3.32%	4.04%	-4.13%	1.61%
2017	6.61%	13.09%	-0.79%	6.03%	9.15%	6.82%
2016	5.04%	8.56%	11.85%	16.13%	5.35%	9.39%
2015	6.67%	-10.42%	-0.25%	-6.38%	-10.15%	-4.11%

Source: Bloomberg. Data as of 12/31/2024. **Past performance is no guarantee of future results.**

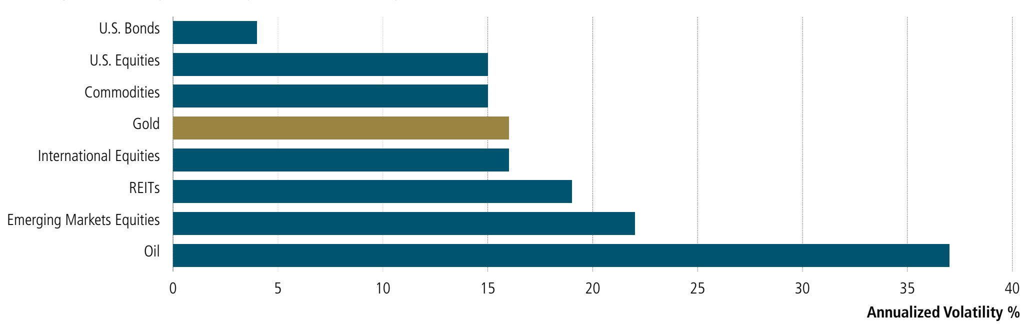
4. Liquidity

Gold is a highly liquid asset, which can be easily bought and sold. This characteristic is especially beneficial in periods of financial stress, when quick and efficient transactions may be essential. Gold's high liquidity has historically ensured its value is maintained with minimal transaction costs.

Figure 4. Gold Has Historically Demonstrated Less Volatility

Gold has been less volatile than many equity indices, alternatives and commodities because of its scale, liquidity and diverse sources of demand.

Average Monthly Volatility of Several Major Assets Since 1994*



*Annualized volatility is computed based on monthly returns in U.S. dollars between 12/31/1994 and 12/31/2024.

Source: Bloomberg. Data as of 12/31/2024. U.S. Bonds are measured by the Bloomberg U.S. Aggregate Bond Index; U.S. Equities are measured by the S&P 500 Total Return Index; Gold is measured by GOLDS Comdty Spot Price; Commodities are measured by the Bloomberg Commodity Spot Index; International Equities are measured by the MSCI EAFE Index; REITs are measured by the Dow Jones Equity REIT Total Return Index; Emerging Markets Equities are measured by the MSCI Emerging Markets Index; and Oil is measured by the CME Group West Texas Intermediate (WTI) Light Sweet Crude Oil near-month futures contract. **Past performance is no guarantee of future results.**

[2] A safe haven asset is a type of investment that is expected to retain or increase in value during times of market turbulence, but this should not imply investment protection. There is no guarantee investments will maintain value during periods of market volatility.

How Much Gold Should I Own in My Portfolio?

January 1, 2025

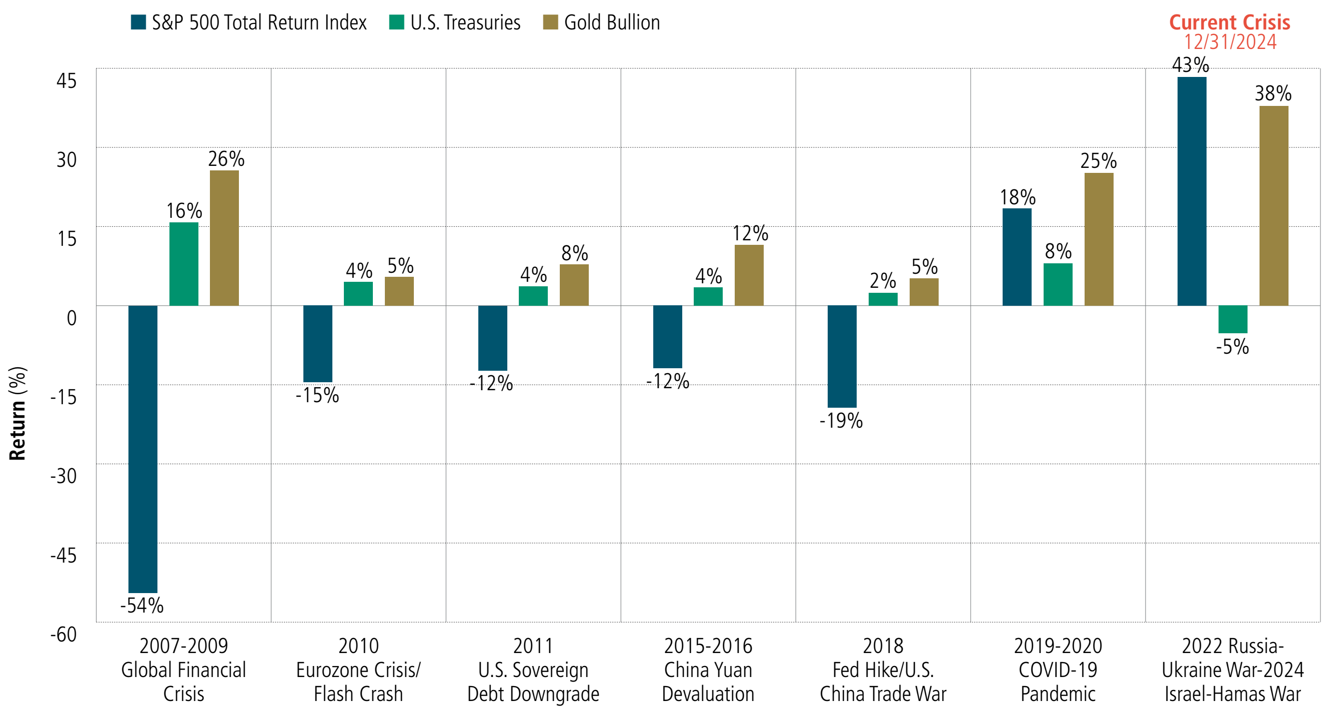
5. Increasing Demand for Alternative Safe Havens

The demand for gold in emerging markets is increasing alongside rising wealth, a trend that may enhance gold prices. At the same time, we are witnessing a general decline in trust towards governments, exacerbated by escalating geopolitical tensions and swelling budget deficits that have culminated in high debt-to-GDP ratios. Significantly, gold, when held in allocated physical form, carries no obligation to any entity and is free of credit risk.

During geopolitical and economic crises, gold has provided a safe haven investment compared to more traditional asset classes, like stocks and bonds. During the seven crisis periods since 2007 (Figure 5), on average gold bullion has returned 16.94% compared to -7.24% for the S&P 500 Total Return Index and 4.66% for U.S. Treasuries (as of 12/31/2024).

Figure 5. Gold Has Been a Safe Haven During Economic and Political Instability

Performance of Gold Bullion vs. S&P 500 Total Return Index and U.S. Treasuries in "Crisis" Periods* (2007-December 31, 2024)



Crisis Period	Start*	End*	S&P 500 TR Index	U.S. Treasuries	Gold Bullion
Global Financial Crisis	10/11/2007	3/6/2009	-54.46%	15.80%	**25.61%**
Eurozone Crisis/Flash Crash	4/20/2010	7/1/2010	-14.53%	4.47%	**5.44%**
U.S. Sovereign Debt Downgrade	7/25/2011	8/9/2011	-12.27%	3.64%	**7.86%**
China Yuan Devaluation	8/18/2015	2/11/2016	-11.85%	3.50%	**11.54%**
Fed Hike/U.S. China Trade War	9/20/2018	12/24/2018	-19.34%	2.45%	**5.14%**
COVID-19 Pandemic	12/31/2019	12/31/2020	18.40%	8.00%	**25.12%**
Russia-Ukraine War to Israel-Hamas War	2/24/2022	12/31/2024	43.38%	-5.24%	**37.85%**
Average Return			**-7.24%**	**4.66%**	**16.94%**

*The beginning and ending periods selected are our best estimate of the highest impact periods of each crisis and does not necessarily indicate the exact beginning or ending of the specific crisis event. This information is presented for illustrative purposes only. Data as of 12/31/2024. Source: Sprott Asset Management, Bloomberg. Dates used: Global Financial Crisis: 10/11/2007-3/6/2009; Eurozone Crisis: 4/20/2010-7/1/2010; U.S. Sovereign Debt Downgrade: 7/25/2011-8/9/2011; China Yuan Devaluation: 8/18/2015-2/11/2016; Fed Rate Hike & China Trade War: 9/20/2018-12/24/2018; COVID-19 Pandemic: 12/31/2019-12/31/2020; Russia-Ukraine War: 2/24/2022-12/31/2024; Israel-Hamas War: 10/7/2023-12/31/2024. S&P 500 TR Index is measured by the SPXTR; U.S. Treasuries are measured by Bloomberg Barclays US Treasury Total Return Unhedged USD (LUATTRUU); and Gold Bullion is measured by spot gold (Bloomberg GOLDS Comdty).

How Much in Gold-Related Equities and Why?

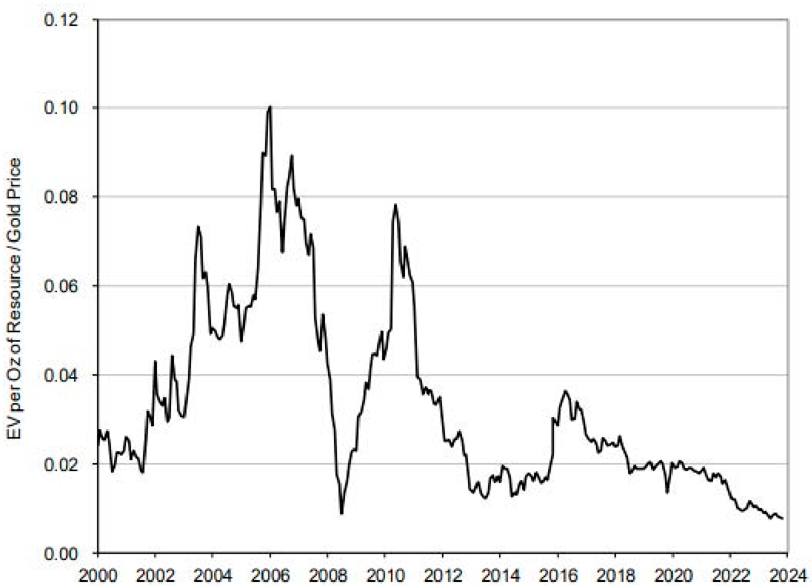
We believe gold-related equities should occupy a tactical 5% position in portfolios when conditions are favorable. Like other cyclical industries, we believe it is prudent to capitalize on the cycles and mispricing of gold equities.

Gold-related equities provide the following enhancements to physical gold:

1. Leverage

Gold mining companies provide leverage to gold prices. When gold prices rise, the profits of these companies may increase significantly, leading to larger gains for investors. Conversely, when gold prices fall, losses can be amplified. Typically, gold-related equities offer about twice the short- to medium-term return of gold prices, owing to their operational leverage. Various valuation metrics, such as the enterprise value per ounce of gold resource, can be used to understand gold equities' position in the cycle.

Figure 6. Enterprise Value per Ounce of Gold Resource Divided by Gold Price for North American Gold Developers (2000-2024)



Source: Scotiabank, Gold Monthly Statistics, Industry Report, April 2024. **Past performance is no guarantee of future results.**

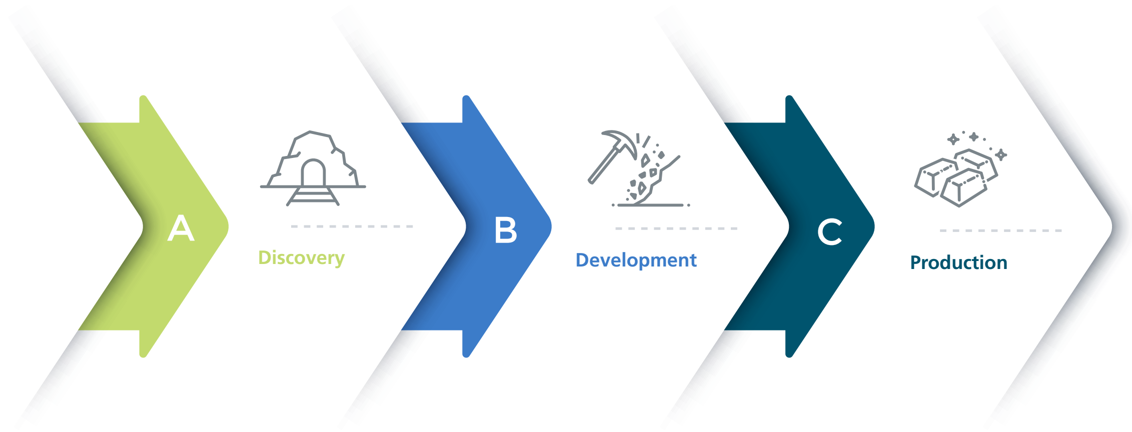
2. Growth Potential

The discovery of new gold reserves by a mining company can lead to considerable growth and noteworthy returns on investment, differentiating gold mining companies from physical gold. As illustrated in Figure 7, the life cycle of a gold mining company is outlined in three stages: 1) Discovery; 2) Development; and 3) Production. In our view, the most value-enhancing stages are during discovery and the mining company's transition from development to production. These phases have the potential to offer significant value-addition opportunities that we consider favorable for investment. However, it is important to note that investing in gold equities also comes with risks. These include operational risks associated with the mining company, geopolitical risks if the mines are in unstable regions, and market risks related to the volatility of stock prices.

How Much Gold Should I Own in My Portfolio?

January 1, 2025

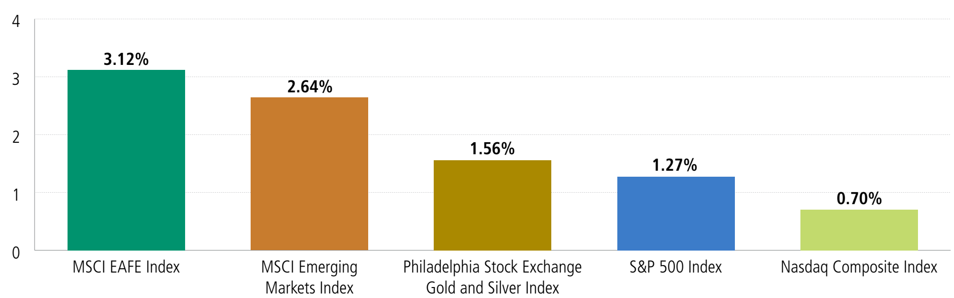
Figure 7. Life Cycle of a Gold Mining Company



3. Dividends

Contrary to physical gold, which does not yield any income merely through possession, gold-related equities have the potential to pay dividends. This may serve as a source of income for investors.

Figure 8. Trailing 12-month Dividend Yield



Source: Bloomberg. Data as of 12/31/2024.

In Conclusion

We believe it is prudent to include gold and gold-related equities in a diversified portfolio for several reasons. Gold has historically shown a negative correlation with other assets during times of market stress, providing a valuable hedge against economic downturns and inflation. Gold can be viewed as a permanent fixed income alternative with zero credit risk. Moreover, gold-related equities, such as mining companies, offer the potential for leverage to the price of gold, giving investors the opportunity for possible gains. Overall, the diversification benefits, inflationary hedge, and potential for high returns may make gold and gold-related equities a compelling choice for any balanced investment portfolio. At present, the gold-related equities sector is particularly appealing due to its undervalued status and lack of popularity.

The exact percentage of physical gold and gold equities in an investment portfolio depends on several factors including an investor's risk tolerance, investment objectives, time horizon, income requirements and overall financial situation.

Investing in gold and gold equities involves additional risks like the possibility for substantial price fluctuations over a short period of time and a relatively limited and unregulated market. Sources of gold are concentrated in countries with the potential for political instability.

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