

Ask the Advisor



I'm really concerned about the stock market, is gold the safest investment or something else right now?

Clint in Danville

There's a big difference between the safest investment and the safest way to invest. Most investments fall into one of two categories, lending or owning.

There are plenty of people and entities that will be happy to have you lend to them: the US Government, banks, companies, municipalities or wayward relatives, just to name a few. With most, not the wayward relative, as long as they don't default (fail to pay you back), you will get back your principal plus a predetermined amount of interest, exactly as agreed, and that predictability is a huge benefit of lending not found in owning.

The "safest" investment, or least likely to result in the loss of your principal while still allowing you to earn something, is widely accepted to be a loan in the form of short-term US Treasuries, also known as "T-Bills." When you buy a T-Bill you are simply loaning money to the US Government for one-year, or less, with a promise of repayment plus interest.

The safeness of T-Bills is attributable to several factors: not the least of which is that you are lending – not owning; short-term loans are usually safer than long-term loans, and the US Government's promise of repayment is considered the most secure promise in the world, *bar none*.

However, with less risk comes less return. As of this writing, the one, three & six-month and one-year treasuries were yielding little more than 2% annually. While your money may be safest in T-Bills, your spending power may be at risk. Inflation relentlessly eats away at your dollar reducing its value on average 3.5% each year. Unless you simply have far more money than you will ever need, you will need to take on some level of higher risk to offset inflation.

If you want to earn more return while still being a lender, you can make longer-term loans and/or lend money to more risky borrowers. Loans can range from one day to thirty years, or more. The credit worthiness of borrowers varies greatly from low risk borrowers such as the US Government, government agencies, highly rated companies and FDIC insured banks to high-risk borrowers such as third world entities, financially troubled companies and wayward

relatives.

While lending can be an effective way to counter inflation, ownership is often the best bet for actually beating inflation, but with more return comes more risk. With most forms of ownership, you have few, if any, promises of repayment of principal, but nor is there a limit placed on the return you may receive for the risk you are taking.

If an owner, you may own your own business, real estate, stocks, collectibles, gold or any number of other assets. Usually, not always, ownership carries more risk to your principal than lending, but there are certainly loans that are of higher risk than some types of ownership, and vice versa.

Gold is a somewhat unusual form of ownership in that its value is internationally recognized. Governments, companies, and even some real estate can collapse, but historically, gold has always had some value throughout the world. Unfortunately, gold has been an absolutely phenomenal investment... only a few times each century. The rest of the time, decades at a time, it can be downright discouraging. It has, for instance, taken gold twenty-six years to get back to where it was in the early eighties.

Your trepidation with stocks is understandable given the volatility of late and the barrage of negative stock market coverage. Just try to remember, stocks are for the long haul, not the short-term. In the short-term, five years or less, stocks can be volatile and risky, but in the long-term, ten years or more, diversified portfolios of stocks have consistently been one of the best ways to beat inflation.

The safest investment, as far as return of principal with some interest earned, may be US T-Bills, but that doesn't mean T-Bills are the safest way for you to invest. Your particular need, time horizon and tolerance for risk are far more important. If your need is long (ten years or more) and you're okay with risk, think ownership, but diversify. If your need is in between short and long, think ownership and lending. If your need is short (five years or less), think only of lending and only to a lower risk borrower – *no wayward relatives*.

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