

Does Gold Belong in Your Portfolio?

A Guide for Investors



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Rethinking Gold: Clarity Beyond the Headlines

John Maynard Keynes famously described the gold standard as a “barbarous relic,” and Warren Buffett has pointed out it produces no cash flow or earnings power. Buffett is correct: gold is fundamentally unproductive and sentiment-driven — more akin to a collectible than a stock or bond, impossible to value on cash flows. Nonetheless, gold does have some properties that make it worthy of consideration as an investment. Indeed, global central banks continue to hold 20–25% of their reserves in gold, indicating that they consider it to be a legitimate asset class.

In the pages that follow, we’ll take a clear, balanced look at gold’s role in a portfolio, cutting through common misconceptions and focusing on what truly matters, so you can feel more informed, more confident, and better equipped to make thoughtful investment decisions.



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Jon began his career on the floor of the American Stock Exchange and has held roles as an options market maker and co-founder of a proprietary trading firm. He is known for his disciplined, data-driven approach and focus on helping investors navigate complex market environments with clarity and precision.



What Gold Really Brings to a Portfolio

The first property that attracts investors to gold is its ability to provide stable real purchasing power over long time horizons. A challenging-to-verify but interesting anecdote illustrates the point. It has been said that a Roman centurion and a modern US Army captain earn roughly the same in gold terms, that a toga cost about what a suit costs today, and that an ounce of gold bought a similar number of loaves of bread in ancient Babylon as it does now. This is sometimes misinterpreted to mean that gold is an inflation hedge, but that is an overly simplistic view. Gold does tend to outperform during periods of inflation, but it does not match inflation well on a quarter-to-quarter or even decade-to-decade basis. Nonetheless, gold has offered stable purchasing power over very long periods, at least historically, and this is a valuable characteristic. There are no guarantees this will always hold, but the store-of-value concept is deeply embedded in collective consciousness — and likely to persist as long as it remains so.

The next property that makes gold worthy of consideration as an investment is its lack of correlation to other assets, especially the stocks and bonds that form the bulk of most investors' portfolios. Correlation measures the tendency of an asset to zig when others zag: a reading of +1 means two assets move in lockstep, -1 means they move in perfect opposition, and zero means no meaningful relationship at all. The holy grail of portfolio construction is assembling assets that all carry positive expected returns while remaining uncorrelated — or better yet, negatively correlated — to one another, virtually guaranteeing positive outcomes under most conditions. In practice, this is nearly impossible to achieve.

Correlation is arguably the most important metric for portfolio construction. Amateurs focus on expected returns, but those are notoriously difficult to estimate and highly unstable. For that reason, professionals focus more on volatility and especially correlation between assets when building portfolios. Correlation is more abstract than expected returns, but it has a high impact on portfolio performance. Readers interested in learning more can google the thought experiment “Shannon’s Demon,” which illustrates how it might be possible to assemble a portfolio with a positive expected return from a universe of assets that all have negative expected returns, if you can find ones with negative correlations to one another.



Gold vs S&P 500 Correlation At A Glance

Market Condition	Typical Correlation Coefficient	What This Means for Investors
Normal / Bull Market	Low Positive (e.g., 0 to +0.2)	Gold and stocks might move slightly in the same direction, but their relationship is weak. They're largely on their own paths.
Market Stress / Bear Market	Negative (e.g., -0.2 to -0.5)	This is where gold earns its keep. It often rises as stocks fall, providing a valuable cushion that preserves wealth during downturns.
High Inflation	Positive	Both gold and equities can perform well, though gold is traditionally seen as the more direct and reliable inflation hedge.

This table shows the typical correlation between gold and the S&P 500 under different market conditions, illustrating gold's value as a diversifying asset.

Sources: [The Historical Correlation Between Gold and the Stock Market: An Investor's Guide](#), Commons Capital, November 2025

What Gold Really Brings to a Portfolio

In the real world, almost all financial assets are correlated to some degree, because they all depend on positive economic growth over time. Professionals and advisors tend to agonize over choosing between small cap stocks, quality stocks, momentum stocks, or value stocks, but all of them tend to rise or fall at the same time, especially during the periods of extreme returns (good or bad) that have the most impact over the long term.

Even bonds, which have had conveniently low correlation to stocks over most of the period since ~1985, can become very highly correlated to stocks during periods of inflation or monetary crisis. This caused unexpectedly sharp losses for portfolios that use bonds as the main diversifier to stocks such as a risk parity or the famous “60/40” portfolio in 2022. Both stocks and bonds zagged at the same time, so portfolios had no risk cushion or stabilizer. Gold has demonstrated a relatively stable ability to zig when stocks and bonds zag, and this is incredibly valuable for its stabilization of portfolio value. If you care at all about risk or the smoothness of your returns, it’s worth looking at gold.

The greatest benefit of gold’s lack of correlation with stocks and bonds tends to occur during crises. When stocks are imploding, or worse yet one or more fiat currencies are imploding, gold has provided some ballast in past episodes. Gold is often viewed as an insurance policy against irresponsible fiscal and monetary policy or stock market crashes, although it’s an insurance policy that doesn’t pay off in every episode. In fact, during some phases of a crisis, gold can actually drop in value as levered investors are forced to liquidate whatever assets they can sell; thus, the price of gold fell during certain portions of the 2020 Covid crash, and during the current 2026 Iran War selloff.

That said, if you look at performance over periods of months, gold does have an *unreliable and not guaranteed* tendency to hold value or rise in price during crises. Not only might it cushion your portfolio on the downside, but it can also serve as a reservoir of liquidity to deploy into assets that are now on sale — allowing you to rebalance and add risk precisely when others are forced to sell, which is when it matters most.

Resisting the Rush: Discipline Over Momentum

Given all this, one might expect the recommendation to be buy gold today. It isn't. Gold has matched the performance of the S&P 500 since roughly 1997, and has outperformed it over the trailing 1-, 5-, 10-, and 20-year periods, as-of Mar 13th, 2026, so those who bought it in prior years are likely pleased with its performance. Over the very long term, holding somewhere between 5 and 15 percent of one's portfolio in gold has worked well.

That does not mean anyone should buy today. Gold can't be valued like a stock or bond, but there are still useful signals for timing a long-term strategic position. Firstly, gold's tendency to move inversely to real yields and the US Dollar offers some tactical timing guidance. Secondly, we can look at price ratios of gold versus CPI, gold vs real estate or stocks, gold vs other commodities, and consider whether its current price is lower or higher than normal today, vs the average over long periods (not the 5-10 years that some might consider "long term," but many decades).

Finally, we must consider some basic common-sense guidelines for investing. On average, over time, parabolic rallies tend NOT to be great times to buy! If your name is Stanley Druckenmiller, then feel free to rush in and buy extreme performance, secure in the knowledge that you have a proven ability to ride the wave and exit near the top. Virtually no other investor has demonstrated any ability whatsoever to accomplish this feat! Retail investors are notorious for rushing in to buy near the tops of asset bubbles and then riding them down, incinerating their own capital in the process.

For all the headlines of small investors making overnight fortunes via short-term trades in bitcoin or meme stocks, there are vast numbers of (unreported and unknown) traders who went broke attempting to do the same. The "1,000 monkeys banging on a typewriter" rule applies here; by sheer luck, a few will ride the bubble and get rich. It probably won't be you or me.

The next common-sense rule is to beware of aligning yourself with a price-insensitive buyer (or seller). When levered investors are forced to sell, that forced liquidation often marks a price low — and you probably don't want to be selling alongside them. Likewise, when a purchaser does not care about valuation, the moment that they pile in often represents a peak. In recent years, geopolitical considerations have forced some central banks, notably China's, to accumulate gold as a bulwark against US power, regardless of its price. Recently, performance-chasing investors noticed that gold had begun to rise in price and piled in. These are not the makings of a good buying opportunity.

Critical Insight:

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If the stock market declines sharply from here, or the fiscal irresponsibility of the world's politicians spills over into a bond market or currency crisis, then there might be additional gains in precious metals. However, a scenario that's at least as likely is that gold may have already peaked and will deliver below-normal returns over the next 10, 20 or 30 years. Given gold's extreme price rise and high volatility, it's quite risky to buy here. If you own less than 10%, you don't necessarily need to sell (since fiscal irresponsibility is unlikely to end in the near term). However, new purchases at current prices might be inadvisable.

There are some potential candidates to replace or augment gold's normal role in portfolio. Prices of all real assets have risen sharply, but some of the laggards include real estate, although that space is vulnerable to the affordability crisis on the residential side and ongoing problems on the commercial side. There are also funds that buy real assets but use a tactical approach to ride trends or take advantage of commodity futures carry. These funds also benefit from holding large cash positions- cash can do much better than bonds during periods of high inflation because it's floating rate with no credit risk (other than US government credit). If you're in the accumulation phase of your investment life cycle, it may be worth investing in this type of fund rather than allocating to gold.

It's worth noting that passive indices are price-insensitive buyers, with no guardrails to safeguard from overpaying, and this risk will be discussed in a future note.

Final Thoughts

Gold's ability to preserve purchasing power over very long periods and its low correlation to stocks and bonds make it a useful diversifier for traditional stock/bond portfolios. For most investors, a modest allocation—typically in the range of 5–15%— is sufficient. However, gold is not a perfect inflation hedge, nor is it immune to cycles of over- and under-valuation. Like any asset, the price you pay matters. Thoughtfully integrating gold alongside other assets can enhance portfolio resilience across a range of economic environments.



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