

After huge gains, even gold fund managers advise caution

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NEW YORK (AP) — Gold has gone gangbusters this year, rising with jitters about everything from a weak global economy to the possibility of a President Trump.

After gold's best first-half of a year since 1980, gold-related funds are piled atop the leaderboard for returns. The average fund that invests in stocks of gold miners has returned more than 70 percent in 2016, for example. Such glittering performance has drawn even more investors, and nearly \$21 billion has poured into funds that buy either gold bars or the stocks of mining companies in the year to date through August, according to Morningstar. In 2015 investors pulled \$2 billion out of those same funds.

But managers of gold funds have a warning for anyone seeking a way to quick riches: Don't expect these types of returns to continue. Think of gold more as a type of insurance, they say, something that will hold up when other parts of your portfolio are crashing. As such, it should probably be only a small part of your portfolio, maybe 5 percent.

"We often find ourselves needing to remind investors that just because we're up 100 percent doesn't mean that you should be loading up," says Dan Denbow, senior portfolio manager at the USAA Precious Metals and Minerals fund, which nearly doubled in the first six months of the year. "Having a win, you should consider it as a time to reconsider, not to double up."

This year's turn higher for gold has snapped a yearslong string of disappointing performance. After hitting a record at roughly \$1,900 per ounce in the summer of 2011, when worries peaked about the European debt crisis and the first-ever downgrade of the U.S. credit rating, its price dropped for years. It sank as low as \$1,050 per ounce late last year. Many gold investors expect the metal's price to keep pace with inflation over the long term, and inflation has been only modest.

This year, the price of gold recovered as investors grew rattled about the global economy. Gold has traditionally been one of the fallbacks for investors looking for a safe place to park their

money, along with bonds. And gold has benefited as bonds look less attractive, given how little interest they pay. The yield on a 10-year Treasury note hit a record low this summer.

Early in the year, investors were worried about the weak global economy, particularly China's sharp slowdown. Then in June, Britain's vote to leave the European Union shocked markets around the world. Recently, the tumultuous U.S. presidential campaign has heightened uncertainty, which has sent even more investors into the perceived safety of gold.

"I think a lot of people are getting very excited about the election," says Tom Winmill, portfolio manager at the Midas fund. "I think there could be disappointment that the world has not come to an end after the election, and there could be a correction in gold." A correction is what traders call a 10 percent drop in price for an investment.

It's one of the ironic features of gold: Investors buy it hoping for safety, but its price can swing sharply and very quickly.

Part of the reason is the diverse set of buyers who set its price. Over the last five years, just over half the demand for gold has come from jewelry, according to the World Gold Council. Another 20 percent comes from central banks buying it for their vaults, electronics companies putting it in wiring and dentists using it for crowns.

But recently, investors have become the most important part of the market. Those buying gold bars, coins or exchange-traded funds now account for the largest share of gold demand. This year is the first time on record that investors have been the biggest buyers of gold for two consecutive quarters.

That means, in the short term at least, the price of gold can swing sharply on the whims and expectations of investors. On Tuesday, the price of gold sank 3.3 percent on speculation that higher interest rates would mean lower demand for gold. It occurred after a Federal Reserve official, one who does not currently have a vote on monetary policy, suggested the Fed should be quicker to raise interest rates.

On the other hand, all it would take for gold to go screaming higher again is, say, an invasion somewhere in the world or some other unexpected conflict. Gold mining companies, meanwhile, typically see their stock prices move double or triple gold's movements. That's because many of these companies' costs stay the same regardless of gold's price, so changes can quickly amplify their profits and losses.

Such volatility is one reason fund managers recommend keeping only a small portion of your portfolio in gold-related funds. Holding gold can make a portfolio more diversified, but when it makes up 10 percent or more of a portfolio, it can become overly dominant.

"We always say you don't want too much of it," says USAA's Denbow, whose fund owns gold mining stocks. "Because of all the volatility, the tail starts wagging the dog, and you lose the diversification benefit because the volatility swamps what the rest of your portfolio is doing."

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