Never Bet Against America – Why This Decade Could Be Different

This common investment wisdom has been used for many decades and is often attributed to Warren Buffet. In fact, Warren Buffet famously wrote this to Berkshire Hathaway’s investors in his 2021 annual letter. "Never bet against America" reflects the long-standing belief that the US economy will always recover from setbacks and is well-positioned for growth and success over the long term, making it a safe and reliable place to invest money. According to the wisdom, investors should never underweight the US and not even think about shorting US stocks.

The role of the US in global financial markets

In fact, there is a strong reason supporting Warren’s sentence. The US plays a significant role in the global stock market. The US is home to the largest stock exchanges in the world, including the New York Stock Exchange (NYSE) and the NASDAQ, where a lot of non-US companies have their primary listing. The market capitalization of US-listed companies is about 55-60% of the global total. This suggests that a substantial amount of money involved in buying and selling stocks worldwide is likely coming from the US. So even ignoring the home bias effect – why would you bet against the money flow?

"Never Bet Against America" might have been a popular investment wisdom for many decades, but the current investment climate presents a different story. The US dollar reached an extremely high level in the middle of last year and international stocks were very cheap. This resulted in international stocks outperforming US stocks in 2022. The recent performance of international stocks and the declining US dollar suggest that the tide may be turning.

The key factor whether international stocks can outperform the US remains, however, the average American investor. If the US accounts for 55 – 60% of total stock ownership in the world and Americans decide to not invest in international stocks, then international stocks won’t do well.

The current economic situation (rising interest rates, high inflation, declining corporate earnings due to the strong dollar) is putting the American investor to the test. If this situation remains and US stocks don’t do well for quite some time, Americans will blame their financial advisors, who will in turn look for stocks

+ China reopening & Russian asset seizures experience drives Chinese not to see the western countries as a safe heaven for their money

In today's ever-changing economic landscape, investors are always searching for ways to improve their portfolio diversification and protection. Despite the popularity of beta investments, many investors overlook other asset classes that can offer a lot of benefits. One such asset class is gold. Despite being often overlooked, gold can be a valuable addition to a well-rounded investment portfolio.

Investors have lived through a period of the last 30 years where the 60/40 portfolio has been the single greatest investment. However, this has been a 95th percentile positive outcome, and in the majority of times, a 60/40 portfolio doesn't perform well in the grand scheme of things. This was evident in the fall of 60/40 portfolios during 2022, which was due to a large bond selloff. With the possibility of central banks not being able to contain inflation effectively, it's important for investors to consider positions in gold and other commodities.

Gold and commodities can offer a lot of diversification and protection, even with small allocations of 10% or less. These asset classes perform well in environments where protection is needed the most. For example, commodities have performed well this year, particularly as a diversifying asset class. Despite the rebound in stocks, a diversified commodity position has performed well and would have alleviated a lot of stress that would have been experienced along the way.

Gold, in many ways, is considered a hedge against inflation. Although inflation was up this year, gold may not have performed as expected for some investors. However, it's important to consider gold as a long-term investment, and its performance over time has been consistent. Gold can provide a layer of protection to portfolios in times of market uncertainty, and its value often increases during times of economic or political turmoil.

In conclusion, gold is a valuable asset that every investor should consider adding to their portfolio. Its unique characteristics as a hedge against inflation, its ability to perform well during market uncertainties, and its long-term performance make it an ideal asset to include in a well-diversified portfolio. Whether you're an experienced investor or just starting out, it's never too late to consider adding gold to your portfolio.

Investing is a crucial aspect of personal finance and many people rely on conventional investment strategies such as stocks, bonds, and mutual funds to grow their wealth. However, with the ongoing economic and market volatility, it is becoming increasingly clear that these traditional methods are not enough to provide adequate protection and diversification to portfolios. In this blog, we will explore why gold, a often-overlooked asset class, can provide significant value as a suitable asset in a portfolio.

Why Adding Gold to Your Portfolio Can Improve Diversification and Mitigate Risk

Many investors today have lived through a period of unusual market performance in which a 60/40 portfolio of stocks and bonds has produced strong returns. However, as we saw in 2022, this can change rapidly, and investors are not necessarily prepared for an environment where central banks may struggle to control inflation effectively. In times of economic and market uncertainty, a diversified portfolio with positions in gold and commodities can provide valuable protection and diversification.

Gold is a precious metal that has been widely recognized as a store of value for centuries. It is not affected by the same economic and market forces that drive stocks and bonds, and has a low correlation with other assets, making it an ideal diversifier. Moreover, gold is often considered a hedge against inflation, as it has a tendency to rise in value when inflation is high.

Similarly, commodities, including precious metals and other raw materials, can provide diversification and protection in a portfolio. As with gold, commodities have low correlation with other assets, and their value tends to rise in times of economic uncertainty. Additionally, commodities can provide exposure to a range of underlying assets, further diversifying a portfolio.

Investors can benefit from adding gold and commodities to their portfolios with as little as 10% of their investments allocated to these assets. This can provide significant protection and diversification without requiring a large portion of the portfolio to be invested in these assets.

In conclusion, gold and commodities offer a valuable and often-overlooked opportunity for investors to diversify and protect their portfolios. By allocating a portion of their investments to these assets, investors can gain exposure to unique and uncorrelated market forces, providing protection and diversification that is crucial in today's uncertain economic and market environment.