

Don't Invest Like a Leprechaun:

Diversification is the Real Golden Rule of Investing



Cetera® Investment Management LLC



Going Green

If green is your favorite color, then you are in luck on St. Patrick's Day. "Going green" has a totally different meaning on the 17th of March; green clothing, green beer, shamrock buttons, and of course, the tradition of dyeing the Chicago River green. If you attend your local St. Paddy's Day celebration, you are almost certain to come across a leprechaun or two. While leprechauns are dressed from head to toe in green, they are probably more focused on gold. A pot of gold that is.

How Much is a Pot of Gold Worth?

According to Irish folklore, leprechauns keep a pot of gold at the end of the rainbow or in the forest under the trees. The leprechaun at your local St. Paddy's Day festival certainly won't tell you where their gold is located, but who knows what you will find if you faithfully eat a bowl of Lucky Charms each morning and carry a four-leaf clover in hand? And what a bounty that pot of gold would be.

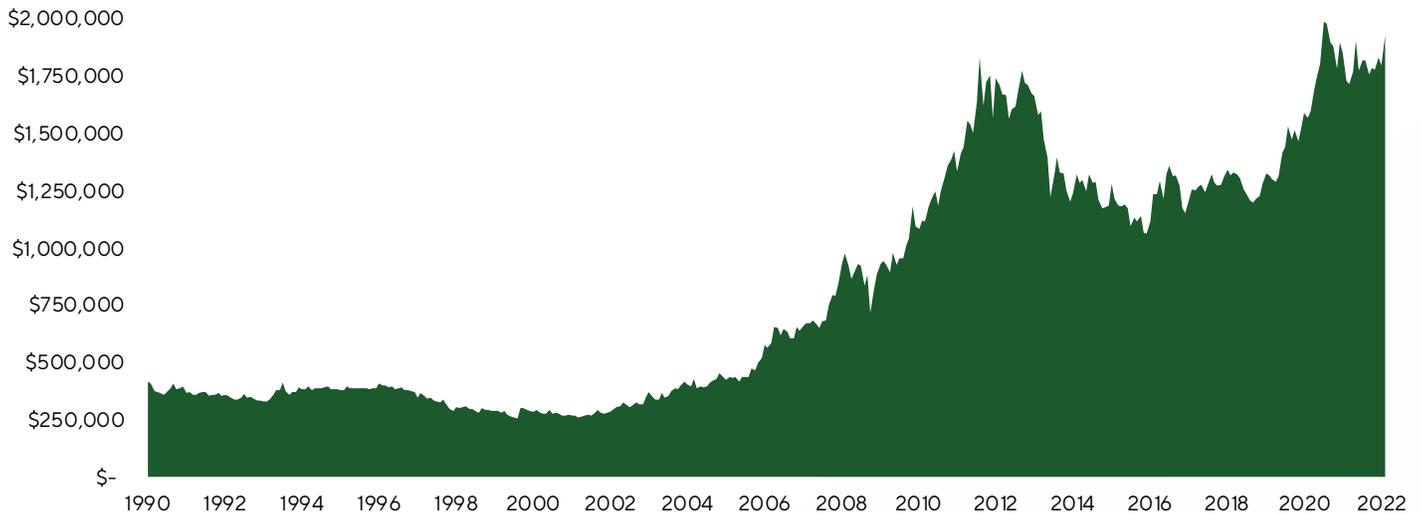
Legend has it that a pot of gold has 1,000 one-ounce gold coins in it. Based on current prices, a pot of gold is worth around \$2 million USD! That is roughly six times what it was worth 20 years ago, though gold has generated more muted returns over the last decade.

St. Paddy's Day Traditions

- Each year on March 17, millions of people around the globe celebrate all things Irish on St. Patrick's Day, named after the patron saint of Ireland. The Irish have celebrated St. Patrick's Day for over 1,000 years as a religious holiday and March 17 was chosen because it was the date that St. Patrick died in the fifth century.¹
- The first St. Patrick's Day celebration in America was in Boston back in 1737.² Not to be outdone, New York City hosted the first St. Patrick's Day parade in 1762.³ There are now more than 100 St. Patrick's Day parades across the country.³
- Corned beef and cabbage might be the customary St. Patrick's Day meal in America, but that wasn't always the case. Irish bacon and cabbage was the "traditional" feast, but Irish immigrants in New York switched out Irish bacon for corned beef as a cheaper substitute.⁴ The rest, as we say, is history and that tradition lives on. In Ireland, Irish bacon or lamb with cabbage is the traditional fare for St. Paddy's Day.²
- More than 34 million Americans have Irish ancestry, which is seven times the population of Ireland.⁵ Sixteen U.S. cities are named Dublin,⁵ paying homage to the capital of the Emerald Isle.



How Much is a Pot of Gold Worth?



Source: Cetera Investment Management, FactSet, the New York Mercantile Exchange. The price of gold is priced in U.S. Dollars per Troy Ounce. The estimated value of a pot of gold is based on 1,000 ounces of gold. Data as of 2/24/2022.

Is Gold a Good Investment for You?

Legend has it that leprechauns work as cobblers and they store gold to preserve their hard-earned wealth. Gold has been used in many forms for centuries, including as jewelry, for dentistry, currency, and to hedge against inflation. Although returns have not always been consistent, gold has held up well against inflation over the long run. Keep in mind there have been long stretches where that has not been the case. Gold climbed from roughly \$220/oz. in 1979 to around \$850/oz. in 1980, before crashing.

The price of gold did not reach the 1980 peak price again until 2008. Leprechauns need to store their wealth in gold because they don't have access to financial markets. While gold can be used as a hedge against inflation, there are other asset classes that are used for this function including commodities, real estate, stocks, and Treasury Inflation Protected Securities (TIPS).

The shiny yellow metal does serve other roles in a portfolio, including as a diversifier, as gold has a low correlation with traditional asset classes (i.e., stocks, bonds and real estate). Gold is also used as a safe-haven asset because demand for gold can rise during periods of economic or political turmoil. It is best to consult with your financial professional and tax professional (gold can be taxed as a collectible and not an investment) to determine if gold is an appropriate investment in your portfolio.



At the End of the Rainbow

Be wary of anyone who promises a pot of gold at the end of the rainbow because they are probably full of blarney. This myth lives on in the modern world, but it is often masked as the “next sure thing” investment. But the truth is, there are no sure things in financial markets. Markets are fluid and different asset classes shine in different market environments, whether in periods of high growth, low growth, recessions, high inflation, or low inflation. Over time, investors have experienced all these environments and there isn’t a bell that goes off when conditions suddenly change.

A Little Nugget of Gold History

Gold has been used as a medium of exchange since at least 1500 BC.⁶ Ancient Egypt had large gold reserves and used it for trade. It wasn’t until 560 BC in Lydia (modern day Turkey) when coins made purely from gold were first used as currency.⁶ Ancient Rome also adopted gold as its currency and their coins were known as the aureus. Gold remained relevant in the monetary system even after paper money became the primary medium of exchange. By the early 20th century most countries used the gold standard, which is a system of indexing the value of a currency to the price of gold.

The U.S. eventually abandoned the gold standard in 1933 during the Great Depression.⁷ Although the standard was reinstated in a more limited form in the 1940s it was officially terminated in the 1970s. No country currently uses the gold standard. However, the importance of gold as a store of value remains. The U.S. Treasury Department has roughly \$500 billion worth of gold reserves, with roughly half of their gold bullion stockpile stored at Fort Knox.⁸



Diversification is the Golden Rule of Investing

A well-diversified portfolio composed of several low-correlated asset classes cannot guarantee against losses, but it can help dampen volatility over the long run as markets transition between different environments. Gold prices are prone to volatility, but it can be appropriate for some investors to include gold in their portfolios.

With that said, don't put all your eggs in one basket, or in the case of a leprechaun, all your wealth in one pot of gold. Storing your wealth under a tree in the forest isn't recommended either (or under your mattress). If leprechauns had access to financial markets, they would be wise to fill their pots with a diversified portfolio that is suitable for their risk tolerance.

We will close with a limerick to get you in the St. Paddy's Day holiday spirit. Bear in mind that we are a little green when it comes to poetry (pun intended):

There's a St. Paddy's celebration each year,

Everything is green including the beer!

A leprechaun once told,

Of his pot filled with gold,

That gave him a smile from ear to ear.

From all of us at Cetera Investment Management, have a wonderful St. Patrick's Day!

¹Ro (2019, June 7). History of St. Patrick's Day. Retrieved from: <https://www.history.com/topics/st-patricks-day/history-of-st-patricks-day>

²Lou, M. and Ahmed, S. (2019, March 17). All your burning St. Patrick's Day questions answered. Retrieved from: <https://www.cnn.com/2019/03/17/world/st-patricks-day-things-to-know-trnd/index.html>

³History.com editors (2019, March 6). St. Patrick's Day Facts. Retrieved from: <https://www.history.com/topics/st-patricks-day/st-patricks-day-facts>

⁴History.com editors (2019, March 1). St. Patrick's Day Traditions. Retrieved from: <https://www.history.com/topics/st-patricks-day/st-patricks-day-symbols-and-traditions>

⁵Dunne, S. (2017, May 12). Top facts on Irish Americans from the US Census Bureau. Retrieved from: <https://www.irishcentral.com/news/politics/top-ten-facts-on-irish-americans-from-the-us-census-bureau>

⁶Reuters.com (2010, November 8). Gold's History as a Currency Standard. Retrieved from: <https://www.reuters.com/article/idINIndia-52748720101108>

⁷Lioudis, N. (2021, April 26). What is the Gold Standard? Retrieved from: <https://www.investopedia.com/ask/answers/09/gold-standard.asp>

⁸U.S. Treasury Department. Retrieved from: <https://www.fiscal.treasury.gov/reports-statements/gold-report/21-02.html>

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A diversified portfolio does not assure a profit or protect against loss in a declining market.

