Fresh Invest x Morning Brew
EP2 Gold Transcript
November 3, 2020

Alex Lieberman [00:00:10] What is up, everyone? This is Alex Lieberman, co-founder and CEO of Morning Brew. And this is Fresh Invest, your new favorite investing podcast sponsored by Fidelity Investments and powered by Morning Brew.

Alex [00:00:25] Here's what you can expect from Fresh Invest. Each week, I will dive into a massive business topic making headlines, and work through the impact that topic has on my portfolio. Fresh Invest is the jet fuel you need as a young investor. And today's topic is—drum roll, please—[sound of drum roll] gold.

Alex [00:00:45] Let me tell you why I am so fascinated by the business of bullion. Since the beginning of time, gold has been a hot commodity. Empires and kingdoms were defined by their gold supplies. And until the 1970s, the U.S. monetary system operated according to the gold standard. And although the value of the U.S. dollar is no longer pegged to the precious metal, much of the investment community still considers gold to be an effective store of value.

Alex [00:01:14] Said differently, gold has earned the designation as a safe haven asset because of its ability to hold value when global markets are in frenzy or when inflation runs rampant and the value of the dollar goes down. But let me be clear. I'm not just obsessed with gold. I am obsessed with gold at this very moment in time. In the wake of the 2020 election, during a global pandemic, gold is going to be front and center for every analyst, investor, and Brew writer.

Alex [00:01:43] Which leaves me with so many questions. Will gold hold up its end of the bargain and truly preserve value during probable volatility? And how should I be thinking about the precious metal versus digital currencies like Bitcoin as stores of value? And finally, how do I even go about buying gold if I decide that I'd like to invest in it?

Alex [00:02:02] A few weeks ago, Fidelity let me ask one of their very own about this whole gold phenomenon. In my conversation with John Gagliardi, we chatted about why gold is such a big deal in the market right now. I want to figure out what it means, what it indicates, if it's worth it, or if it's an investing pastime reserved for my parents' generation. Let's get into it.

Alex [00:02:23] John, welcome to the show.

John Gagliardi, Regional Vice President, Brokerage, Fidelity Investments [00:02:25] Thank you for having me.

Alex [00:02:26] I would love to start with you introducing yourself and provide some context on why you're joining this conversation today.

John [00:02:33] Sure. So my name is John Gagliardi. I'm a Regional Vice President of Brokerage for the New York / New Jersey area for Fidelity Investments. I show people how to use our research and our technology. People who are making their own decisions—we want to make them better at making those decisions and continue to do what they love.

Alex [00:02:52] I'd love to know, how did you get so into gold? It's a very specific asset to get really passionate and smart about. What drew you to gold?

John [00:03:03] So gold is weird. Gold is a lot of different things. Gold could be seen as a currency. It could be seen as a precious metal, but also an industrial metal. There's plenty of gold inside of a computer. So gold is kind of everywhere. And one of the things that gold has been fantastic at doing in the past is it's been a great hedge against a collapsing or falling dollar, otherwise known as inflation. So if the value of your dollar is going down, usually gold is going up. And that's happening more now than we've seen in a long time.

Alex [00:03:40] I would love to better understand, is there any rhyme or reason for why this relationship exists?

John [00:03:46] Yeah, it's the view that gold is seen as a store of value that goes back thousands of years. So currencies have come and gone many, many times over, including the U.S. dollar. U.S. dollar is a fairly new currency. And in times of rapid inflation, we've seen gold rise in value.

Alex [00:04:05] I think this is a perfect segue way for Alex to put his young investor hat on. If I was to think about investing in gold as an asset class, how could I actually go about doing that?

John [00:04:16] So there are plenty of products out there, mutual funds and ETFs. But one thing that's interesting about the ETF space. Exchange traded funds—these are things that started out tracking portfolios of stocks, like the S&P 500. And then someone had the great idea of looking at a vault of gold, saying, couldn't we create an ETF around this, and can we track physical gold? And the answer is yes.

John [00:04:44] There are several ETFs that track the physical spot price of gold. So if you see gold trading at $1,300 an ounce, you can purchase an ETF for $130, or even $13, that are tracking that spot price of gold. The second way, and again, you can look towards the mutual fund market or ETFs, there are plenty of gold miners out there. Now, some investors feel more comfortable with the gold miners because they are living, breathing companies. They produce a product and they have earnings. And some of them even pay dividends. So there are plenty of ETFs and mutual funds out there that are tracking gold miners.

Alex [00:05:26] Just to go a little bit deeper. What can I expect to be different if I chose to, say, invest in gold mining stocks versus investing in just the basket or the ETF that tracks gold as an asset class?

John [00:05:40] So tracking gold as the asset class, you know that gold isn't going away, but miners are going to come and go. So having some sort of a basket as either an ETF or a mutual fund, you really need to be selective in those gold mining companies, like I mentioned. You always have to be wary of the bad actors there. So sticking to the large caps, the mega caps, is always one solution to be on the safe side of that trade.

Alex [00:06:07] And just to be clear, we've been talking about investing in gold through ETFs as the investment vehicle. Not saying I'm going to do this tomorrow, but is it actually possible for me to buy gold? Literally take delivery of that gold and keep that gold in my house? Again, not saying I'm going to do it, but is that actually possible for investors?

John [00:06:26] Strangely, yes. So there are breakpoints in some of those ETFs where you could demand physical delivery. Now, that's on a huge investment, of course. But even at Fidelity, you could call up the Fixed Income desk and you could get physical delivery of gold. You can get it delivered to your house, your vault, or, yes, even a Fidelity vault. So there are alternatives to doing this in the physical world.

John [00:06:50] However, there are going to be charges for all these things. You have to think about where am I going to store it? Am I going to insure it? As opposed to owning a mutual fund or ETF, where the ETF owns the gold and they're insuring it and they're storing it. So you have to think of the whole equation here on the investment. You definitely don't want to pay more for insurance and storage than the gold goes up. So consider all things. ETFs are trading at zero cost. So it's never been better for small investors just starting out.

Alex [00:07:21] So I want to step in to Professor Gagliardi's class on mutual funds and ETFs right now. Can you just provide me a little bit more clarity on the difference between mutual funds and ETFs?

John [00:07:37] Absolutely. So we'll keep this high level. So mutual funds have been around for hundreds of years. Generally, they have a manager. Generally, they have higher fees, and generally that manager's making decisions on the portfolio. Now, ETFs, on the other hand, exchange traded funds, just like the word says, they're exchange traded. So generally, they don't have managers. They're following indexes and they have lower fees.

John [00:08:03] Now, taxation is an important part of this because mutual funds, whether they do well or not for the year, if they create capital gains, the investor's responsible for those capital gains and the taxes with them every year. So in a taxable account, that's going to be important. And ETFs, on the other hand, because they're exchange traded, they're very much like a stock. There's no capital gains and no taxes until the day you sell. So there's very big differences between the two asset classes. And you should absolutely do your homework.

Alex [00:08:37] Got it. Awesome. So my understanding is that mutual funds and ETFs both basically provide broader exposure to a basket or a portfolio of assets. But then where they end up having differences is one, on the fee structure. Generally speaking, mutual funds are higher fees because there's an active manager of the mutual fund.

Alex [00:09:00] And taxation of mutual funds and ETFs looks different. If the value of your investment in the mutual fund, say, goes up or down on an annual basis, you'll be on the hook for paying taxes on that, whereas it looks different in the world of an ETF.

John [00:09:19] Correct. And these things are evolving. Believe it or not, the least expensive way to own the S&P 500 is actually on the mutual funds side. And it's computerized, just like an ETF. And to the reverse, there are active managers jumping into the ETF space. So these things are evolving. There's really no hard, fast rules because it's changing even as we speak.

Alex [00:09:42] Got it. OK. We're gonna put a pin in mutual funds and ETFs. I think we've gone as deep as we want to go today. I want to go back to gold. So let's play out a scenario. Gold prices go up, OK? How should I, as a young investor, be thinking about that for the broader market or economy at large? What should I be taking this to mean?

John [00:10:04] Great questions. It's like "Game of Thrones." Winter is coming. And just like winter is always coming, winter, spring, summer and fall, there's always a business cycle. Expansion, peak, recession, trough. Now, that happens in both economics and the stock market. So if you've been watching the market the last couple of years, you'll notice there were big sell-offs in 2011, 2016, 2018. And then coronavirus hit.

John [00:10:31] Now, none of those sell-offs so far have been reasons to absolutely panic. I mean, there were a couple of months in there with coronavirus where long-term trends were breaking. So, there were moments there where you had to be prepared for things to get worse. But, in the context right now, we've been in a secular bull market in a long term. He's been doing pretty well since 2013. So no reason to panic.

John [00:10:55] But, having the access to other asset classes, like bonds or gold—things that could be hedges against inflation or a lower stock market—it's great to have access to those other things and be prepared. Do your homework, read up on these things. So when they happen—because they will happen—you won't be unprepared. You'll say, OK, I knew this could happen. I heard that winter's always coming and here it is. It feels pretty cold right now, and you'll be prepared. But expect those recessions to just be normal parts of the business cycle.

Alex [00:11:33] Awesome. And always appreciate the "Game of Thrones" reference. As we wrap up this discussion, I want to get a little bit more specific with our conversation around gold and the broader markets. What tools or resources should I be thinking about within Fidelity's toolkit to help young investors like myself?

John [00:11:54] This is a great question, and I do have a very specific tool in mind. If you're entering a trade—for anything—always look at your downside risk and then consider what's my upside potential. And you should be looking at scenarios where for every dollar or percentage you're willing to risk, you've got to make at least three times that.

John [00:12:15] Now, the great thing about Fidelity, we've got a product called Trade Armor. So the moment you buy something, you can protect your principal to the downside and protect your potential profit to the upside. And that's a great way to start off a new investment.

Alex [00:12:30] John, this has been an awesome conversation. I've learned a ton. I want to finish with a question that I always ask our guests of the show. Let's put Alex in the shoes of just any other young investor. I'm someone who just graduated from college. I'm working in financial services or consulting. And I am proficient in the markets and investing, but not at all fluent. What is one parting piece of advice you'd provide me to successfully navigate today's financial landscape?

John [00:13:00] I would keep it to three simple things. First, read books. I know it's not popular today, but get books from years ago. The books that have been created over the decades looking at markets are phenomenal. You'd be shocked at how the things that were happening in the 1920s, '30s, and '40s are just like they are today. There's no difference between what they were experiencing and what we're seeing today.

John [00:13:25] The second thing is, ignore the wall of worry. The wall of worry is only important if it breaks the trend. So if you're looking at the last 40 years of the S&P and, you know, since 2013, markets have continued to go up. If that trend stays in place, keep your plan in place. Everything's going the way you expect it to. Things are fine. Pay attention, of course, if those trends break. That is a game changer because it rarely breaks on the very long term.

John [00:13:52] And the third thing is have a plan. Expect that those things can change—that the long-term trend can break. Expect that there is going to be a five-year business cycle. Put all that together and keep your eye on the plan. The better your plan, the better you'll be prepared.

Alex [00:14:07] Awesome. Well, John Gagliardi, thank you so much for the time and the insights. Really enjoyed having the conversation with you.

John [00:14:13] Thank you for having me. This was great.

Alex [00:14:16] I asked for a master class on this asset class and John delivered. I can't emphasize how good of a refresher this was about not just gold, but also some of the most important macroeconomic concepts like inflation and hedging. And what I really appreciated about John's breakdown was his balanced perspective on the precious metal. He gave me historical context on why gold is viewed as a store of value, but also points in time that the relationship between gold and the U.S. dollar has broken down.

Alex [00:14:48] With all that context and a potentially long stretch of volatility after the U.S. election, I believe that further research around the hard asset will be time well spent. But I'm not yet convinced one way or another that adding it to my portfolio will make sense. Thank you, everyone, for tuning into Fresh Invest. Check out Fidelity.com/FreshInvest for more information and resources. And be sure to join me next week for our next episode on trading in a post-election market.

Morgan Chmielewski, producer of Fresh Invest [00:15:28] Hey, everyone, this is Morgan Chmielewski from Morning Brew. And as the producer of Fresh Invest, I'm here to let you know that this podcast was created on behalf of Fidelity Investments by the Morning Brew Creative Studio, and does not reflect the opinions or point of view of the Morning Brew editorial team. Source are provided for informational and reference purposes only. They are not an endorsement of Fidelity Investments or Fidelity Investments' products.

Morgan [00:15:43] And on their side, the gold industry can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. Fluctuations in the price of gold often dramatically affect the profitability of companies in the gold sector. Changes in the political or economic climate, especially in gold-producing countries such as South Africa and the former Soviet Union, may have a direct impact on the price of gold worldwide.

Morgan [00:16:04] The gold industry is extremely volatile, and investing directly in physical gold may not be appropriate for most investors.

Morgan [00:16:09] Exchange-traded products (ETPs) are subject to market volatility and the risks of their underlying securities, which may include the risks associated with investing in smaller companies, foreign securities, commodities, and fixed income investments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. ETPs that target a small universe of securities, such as a specific region or market sector, are generally subject to greater market volatility, as well as to the specific risks associated with that sector, region, or other focus.

Morgan [00:16:33] ETPs that use derivatives, leverage, or complex investment strategies are subject to additional risks. The return of an index ETP is usually different from that of the index it tracks because of fees, expenses, and tracking error. An ETP may trade at a premium or discount to its net asset value (NAV) (or indicative value in the case exchange-traded notes). The degree of liquidity can vary significantly from one ETP to another and losses may be magnified if no liquid market exists for the ETP's shares when attempting to sell them. Each ETP has a unique risk profile, detailed in its prospectus, offering circular, or similar material, which should be considered carefully when making investment decisions.

Morgan [00:17:02] **Past performance is no guarantee of future results.**

Morgan [00:17:04] Fidelity does not provide legal or tax advice. The information herein is general in nature and should not be considered legal or tax advice. Consult an attorney or tax professional regarding your specific situation.

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Morgan [00:18:16] Fidelity Brokerage Services, LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, Rhode Island, 02917.

Morgan [00:18:23] See you next time.