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Lear Capital Founder on Why Investors Turn to Gold in Times of Conflict

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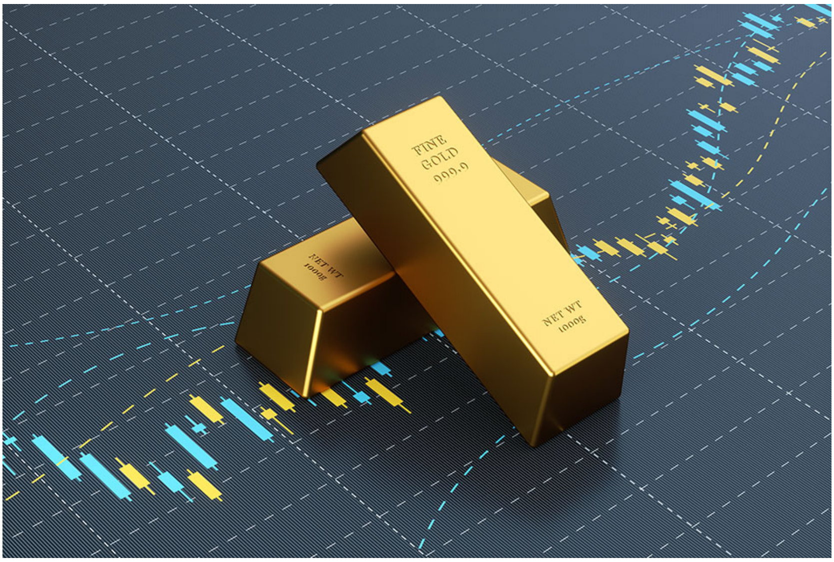

War can have a profound effect on the economy, prompting consumers to look for lower-volatility investments, according to Kevin DeMeritt, founder and chairman of Los Angeles-based gold and precious metals firm Lear Capital — a scenario that's been playing out this year following Russia's invasion of Ukraine.

For businesses around the world, factors such as trade sanctions and supply chain issues that may result from conflicts between countries can affect product and service demand, pricing, sales and profitability. As companies attempt to adjust to more difficult conditions, some may experience performance shortfalls, in turn prompting reduced investment activity.

After Russia invaded Ukraine in February 2022, the economic effect was felt almost instantly. Russia is a key commodities provider, and Ukraine exports a significant amount of food; by early March, soon after the conflict began, food and energy both prices increased, impacting European nations and global financial markets, according to a Federal Reserve Bank of St. Louis analysis.

The stock market, too, felt the impact. As NPR noted, stocks had already been declining in 2022, due in part to inflation and concern about potential interest rate increases, and directly after Russia began its invasion, global stock markets fell.

While 2021 involved record-breaking performance and solid returns, with stock wealth in America growing from $22 trillion to $42 trillion, 2022 has been less robust. Lackluster stock market performance has, in fact, sawed off more than $9 trillion in U.S. household wealth this year, according to one report.

Balancing Investment Possibility and Protection

When generally more unpredictable investment vehicles such as the stock market fail to provide the returns investors anticipated or had hoped for, a number may seek other options — such as gold, which has steadily increased in price since the start of Russia's invasion.

In March, the same month a wave of food and energy price increases occurred and the market declined, global gold prices reached the highest level in more than a year , hitting more than $2,000 per 1 troy ounce as investors flocked to investments that can be perceived as seemingly safer, according to *U.S.*

News & World Report.

“Gold has an inverse relationship to stocks and other types of assets,” Lear Capital’s Kevin DeMeritt says. “In times of war or terrorism, usually you’re going to find the markets become extremely volatile. On a day-to-day basis, nobody knows what’s going on. The volatility of gold is not going to be the same; it typically is going to give you more stability.”

According to the Lear Capital founder, the currency production practices the U.S. government employs — which have, in the past, included printing additional money to support military efforts during times of war — can also contribute to conflict-era economic challenges.

“If you go back prior to 1974 in the United States, we had to back a printed paper dollar with gold — and we don’t do that anymore,” Kevin DeMeritt says. “What does that do to the value of the currency? Now that we can print up as much money as the central bank wants, every paper dollar you print, the paper money that’s already out there becomes worth less and less; that’s what happens over time to paper currency.”

Precious metal assets, on the other hand, are in limited supply, which helps them retain value.

“We can only mine so much gold per year,” Kevin DeMeritt says. “If you add an increase in demand from the printing of paper money onto that physical supply of gold that’s limited, usually, what you’re going to find is prices go up; it’s economics 101. So paper money is probably going to continue to fall, [as] it has for every nation for hundreds of years now, and the price of gold is probably going to continue to increase.”

A Forward-Thinking Investment Approach

With the Russia-Ukraine conflict now about to enter its tenth month, and the final outcome still very much uncertain — and historically high inflation still troubling the U.S. economy — some investors, Kevin DeMeritt says, may shy away from stocks in the coming months in lieu of stability.

“If [Russian President Vladimir] Putin today said, ‘Hey, I’m done; I’m going to pack up my war machine and go home,’ the markets might skyrocket,” DeMeritt says. “Then again, if something like nuclear weapons comes up, the market drops 500 to 1,000 points. It’s been a long time since we’ve had this kind of inflation. We’re starting to see more and more people become concerned about the volatility in stocks and other markets, which happens when you have higher inflation.”

Consumers’ retirement and other savings, as well as spending ability, can be altered by inflation.

“At today’s rate, at around 8%, in around seven to eight years, your money would drop almost in half,” Kevin DeMeritt says. “Each year that goes by, if I’m losing 8% of the value of my paper money purchasing power, I need something to offset that. Gold is going to be a great alternative because it happened, in the past, to be one of the better opportunities and assets that can offset that loss of purchasing power in paper money due to inflation. Over the next five or six years, I think demand will continue to increase for precious metals as the inflation rate slowly falls.”

Potentially with good reason: The last time inflation reached this year’s high levels, the price of gold rose 147% — and the price of silver shot up 557%, according to Lear Capital data.

Because gold prices have traditionally risen during times of uncertainty, including that type of precious metal asset in a portfolio could potentially offer investors some protection — today, and if any future conflicts or issues arise between nations and inspire a widespread economic effect.

“What we’re seeing in Ukraine could happen in Taiwan [or another country],” Kevin DeMeritt says. “You can’t predict those things, but when they happen, it can have a quick and devastating effect on investments — especially if you’re retired [and living] on your assets. The volatility of gold is not going to be at the same rate as what we’ve seen with other assets due to the war, 9/11, or this inflation situation [in] the stock market.”

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