Gold and bitcoin are weird.
goods or services anymore.

While both are “mined,” their only real-world or virtual applications seem to be as tools of pure speculation—or as safe-haven assets. Whenever the world goes half a bubble off plumb, people flock to gold. More and more, they also seem to flock to bitcoin.

The price of an ounce of gold and of a single bitcoin were affected by Covid-19. Both prices bounced dramatically after governments and central banks around the world pumped money into consumers's wallets (and banks' coffers) in response to the global recession.

Many investors are unsure what place, if any, either asset has in their portfolio. Here's what you need to know to understand how bitcoin and gold might fit into your investment strategy.

Gold Isn’t Much of an Inflation Hedge

First, the bottom line: You can add gold to a well-diversified portfolio of stocks and bonds, but experts believe it shouldn't amount to more than 10% of your holdings.

That said, it's important to know why you’re adding gold to your holdings. If it's to fend off inflation, think again. While research shows the value of gold remains constant over a very, very long period—like a millennium or two—it can't really be counted on as a store of value over a more modest time period. It's simply much too volatile.

In fact, gold is as volatile as the S&P 500, says Duke professor and senior advisor to Research Affiliates Campbell Harvey, and its returns don't generally beat returns from the broader stock market over the long term.

So Why Should You Invest in Gold?

Gold is better understood as a safe haven that investors embrace when times get soupy. For instance, in late 2018, the S&P GSCI Gold Index gained 7.2%, according to Morningstar data, while the stock market declined nearly 14%.

But gold volatility can go in both directions. Almost a third of fund managers polled in the August 2020 Bank of America Global Fund Manager Survey stated that they believed that gold was overvalued—the highest this sentiment has been since 2011, and up from 0% the month prior.

To put that in context, SPDR Gold Shares, a popular gold exchange-traded fund (ETF), gained 9.6% in 2011 and then 6.6% in 2012, before losing 28.3% in 2013 and then delivering negative returns the following two years.

Gold, then, should be treated as hot sauce rather than the main course in your investment portfolio.

Why Invest in Bitcoin?
earlier, bitcoin is a much more recent affair. It was invented by a person, or people, known as Satoshi Nakamoto, in 2009. As a fledgling endeavor, it has endured wild price swings during its almost decade-long tenure.

The cryptocurrency rose to nearly $20,000 USD per bitcoin by the end of 2017, only to drop to less than $4,000 USD by the end of 2018. In 2020, bitcoin bounced around right along with stocks and gold. Its value dropped about in half to roughly $5,000 USD from the middle of February to mid-March of 2020, when investors were first coming to grips with the effects of coronavirus. But it jumped to nearly $11,500 USD five months later.

In 2021, Bitcoin’s value reached new heights. As Coinbase, a cryptocurrency exchange, went public, prices reached over $60,000 USD. However, this was followed by fluctuations in value: It dropped 50% in July but rebounded to $68,789 USD in November, an all-time high. In December 2021, Bitcoin experienced another steep drop, falling to $46,164 USD.

In 2022, between January and May, Bitcoin’s price has continued to gradually decline. Closing prices only reached $47,445 USD by the end of March 2022 before falling further to $28,305 USD in May. This marked the first time since July 2021 that Bitcoin closed under $30,000 USD.

On June 13 2022, crypto prices plummeted. Bitcoin dropped below $23,000 USD for the first time since December 2020.

These dramatic price swings tend to be greater than what you even see with gold, and so the digital currency cannot be viewed as a way to store value, as some like to claim—at least not yet.

That said, “the entire crypto ecosystem has matured substantially,” said Stephen McKeon, associate professor of finance at the University of Oregon. “The question has moved from ‘will this survive’ to ‘how big will this get?’”

Fidelity recently announced plans to create a bitcoin fund, although it’s only set to be available to large institutional and accredited investors. Still, these types of moves may ultimately increase bitcoin’s liquidity and help smooth out the wild price swings.

**Why Do Investors Buy Bitcoin and Gold?**

Both gold and bitcoin tend to attract investors when central banks around the world step in to bail out struggling economies. The reasoning works something like this:

Governments reduce the value of their fiat currencies (currencies backed by the full faith and credit of a nation or group of nations) when they print lots of money and drop interest rates close to zero. Investors respond by putting money into currencies not controlled by central governments.

Moreover, when interest rates are so low, and especially when inflation-adjusted interest rates are negative, investors are less enamored with assets that offer yields, like bonds and dividend-paying stocks.
momentum and investors bail out. Then you have the dubious honor of buying high and selling low.

**What are the Differences Between Gold and Bitcoin?**

Gold and bitcoin represent different phases of how people think about “money.” Gold was a currency for thousands of years, and it retains value in part by the psychological and historical attachment investors have to it. Bitcoin, along with blockchain technology, hopes to one day replace government currencies as the means by which people exchange payments.

As an investment, gold is a more mature asset. As such, it tends to be easier to own. For instance, you can buy SPDR Gold Shares, which has an expense ratio of 0.40%, through your brokerage account. There’s really no need to commit yourself to owning physical gold, with its high costs of secure storage.

With Bitcoin, the most common way to invest is to open an account on a cryptocurrency specific exchange, like Coinbase, and actually exchange your dollars for the digital currency. You’ll then need to hold it in a digital cryptocurrency wallet.

More broadly, investing in gold reaffirms your belief in the current international financial system, whereas bitcoin is a bet that a more radical alternative is coming.

“The case for crypto is that it is poised to disrupt a large segment of the financial services industry,” said McKeon. “Decentralized finance applications have now replicated many traditional business lines such as trading, lending, and insurance.”

**Should You Invest in Gold or Bitcoin?**

You don’t need to invest in either gold or bitcoin to have a well-diversified portfolio. Most investors would do well to ignore their allure and instead own a combination of index funds and bond fund. Most major investment companies offer low-cost options, and you can allocate how much you invest with each based on your age and risk tolerance.

If you want to make a speculative bet on either gold or bitcoin, do it with a small, single-digit, portion of your assets. There isn't sufficient evidence to suggest either will deliver more consistent returns than a traditional strategy emphasizing stocks and bonds.
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