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Preserving Your Hard-Earned Wealth

- Carol Roth

In this informative newsletter, Carol covers what capital appreciation vs. capital preservation means for your investment strategies; why both are critical to embrace for your portfolio; places to find yield today if you have short-term capital needs; factors creating an urgent need for hedges like precious metals; and more.

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Preserving Your Hard-Earned Wealth

Whether you need your money today or in forty years, capital preservation must be part of your strategy

I get a lot of questions about the economy, finance and business. Given the uncertainty with the banking system and overall economy, an underlying theme to many of the questions I have received of late are tied to addressing a simple concept of wealth and portfolio management: capital appreciation vs. capital preservation.

Wealth is derived from asset ownership. More concretely, wealth comes from the ownership of assets that increase in value over time. Asset ownership provides the ability for people to increase their wealth exponentially–by several multiples of the original investment. This is something that working and earning alone cannot do. This is what putting your money to work for you means.

However, every growth opportunity for your wealth involves taking on some level of risk, even when you have been taught an investment is “safe” (see the latest banking crisis for a real-time example).

These risks, which vary in their degree of riskiness, encompass a number of factors, including time. Depending on the day, month or year that you start investing and those that you measure to, your returns in various asset classes often look a bit more like a roller coaster than a set of stairs leading from the bottom to the top floor.

For those individuals with longer investing time horizons, some of that “time risk” can be managed just by waiting investment cycles out, and with that luxury, some of that risk is absorbed in exchange for the potential for a greater capital appreciation opportunity.

But, sometimes, as they say, time is not on your side and you are seeking to make sure you don’t lose what you have. While it is never ideal to try to perfectly time the market, short-and-long term capital preservation strategies make sense.

This is even more important given the overall financial trajectory of the US and global economies today.

After reading about this, you may want to call Goldline to discuss your objectives around stores of value, including gold and other precious metals. More information is at the end of the piece.

Short-term Capital Preservation

There is no doubt that the equity market today is set up for more volatility. The Federal Reserve’s steep interest rate hikes have done little to quash consumer demand and spending. They certainly aren’t influencing government spending, either, and inflation continues to run at historically elevated levels across the economy. Even the banking system is in chaos.

Whether it takes a while for the economic impact of Fed policy to be observed or it turns out that the Fed has to go over the top with rate hiking to bring the economy to a grinding halt, the backdrop is rightfully one making those with heavy equity positions nervous.

If you, as an investor, have a long-term time horizon, if the future is like the past, that may work itself out. However, I have received questions from people who have upcoming capital needs, such as college for their kids, making a meaningful capital expenditure or are contemplating retirement. For these scenarios, focusing on capital preservation may take precedence over capital appreciation.

Obviously, the specific decisions and actions you should undertake depend on your personal and familial financial objectives, risk profile and more. This is where an advisor can be helpful to you. And, the timing is ripe today for preserving capital, as there are many more places to find some yield (aka, generate a return on your investment) with a lower risk profile than in years prior.

Taking investment capital you will need in the short run and putting some amount of that into shorter duration Treasury securities, CDs of varying durations, preferred money market accounts and similar investment products can yield you 4-5% with a fairly low risk profile. While those rates don't quite keep up with inflation, it can be a good option for near-term capital preservation.

These potential yields will likely even go up a bit should the Fed continue their interest-hiking path.

As of late February, the Wall Street Journal noted that, "This week you could earn 5.1% on a six-month U.S. Treasury bill, free of state and local tax. High-quality municipal bonds are yielding the equivalent of roughly 5.5% if you're in the top federal tax bracket."

While that has come down since then in the wake of the current macroeconomic backdrop, those yields are still attractive.

Again, make sure to talk to an advisor who can help you with your strategy and execution, and make sure that any of these products you consider are insured by the FDIC or similar relevant entity.

Some people use gold and precious metals as part of a short-term capital preservation strategy—not so much for when capital is needed, but to smooth out bumps on the various markets. In my opinion, they are even more relevant in terms of long-term wealth preservation strategies.

Long-term Capital Preservation

The need for capital preservation over a longer time horizon deals with a range of different issues. The investments used for this purpose look more like hedges to a portfolio.

While some of the reasons you want to address long-term capital preservation in your portfolio strategy could be time related (such as hitting a bad time period for your investment classes down the road), there are a number of foundational structural issues that should be considered.

Many of the issues stem from what I believe is the governmental mismanagement of your core dollar holdings. The value of the dollar is being eroded in terms of its purchasing power, by the actions of both the Fed and the US government. This also risks the dollar's status as the sole global reserve currency. These issues are clear ones that call for an immediate focus on long-term capital preservation to be part of a portfolio strategy.

The risks that the Fed and government further centralize control over your money via Central Bank Digital Currencies (CBDCs) also should concern investors, who can hedge this risk via investments in a form factor they control, like precious metals, including gold. (Note, I wrote about this risk in a previous newsletter here.)

There are a number of ways to hedge, and many experts suggest that for long-term capital preservation purposes, investors consider allocating around 5 to 10% of their portfolio in general to alternative assets like gold and precious metals.

Worsening fundamentals around the long-term fiscal health of the government, the potential for the financial restructuring of the dollar as a global reserve currency and the potential emergence of CBDCs are all catalysts that could make one consider even a higher percentage of a portfolio allocation going towards a capital preservation strategy, including precious metals.

For clarity, I note here that for these purposes, particularly those related to long-term capital preservation, physical precious metals are, in my view, a must. Investing in "paper" gold is fraught with a whole other set of risks and does not fulfill the hedge needed to combat the aforementioned issues appropriately.

This is not meant to downplay gold's capital appreciation potential, which has appreciated over long time horizons, but in terms of its primary function in a portfolio, the assistance with capital preservation and hedging is where I personally tend to focus.

Getting help and information is always a good plan. Speak with your financial advisor, particularly about short-term preservation options. If you need help or have questions around adding gold or other precious metals to as part of your hedging and long-term capital preservation strategy, please consider giving my friends at Goldline a call (they are the only precious metals business from which I get my precious metals).

We never know what is ahead and can't fully eliminate risks, but we can mitigate them both in the short- and long-run. Now is the time to look at your portfolio and make sure you have prepared for any short and long-term capital preservation scenarios that you need.