Old Coins Can Add New Money to Your Holdings

A carefully assembled coin collection can be highly profitable BY ROBERT FLIGEL

It has always been my contention that investors should have a small percentage (5-15%) of investible assets in something other than fixed income and equity products and, ideally, something that will also smooth out asset returns. Gold and rare coins fill the bill and smooth out the holdings.

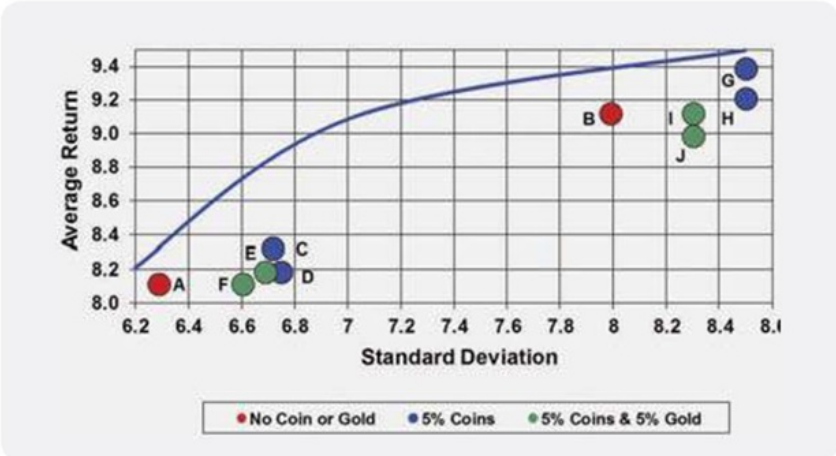
Given the good news of increasing life spans and medical breakthroughs, many Americans will live a long time. So investment assets need to keep pace with inflation and, frankly, expenses. Inflationary pressures, government debt, and world turmoil all poses risks that could disrupt financial security.

It's a good idea to own gold because it's "real money" and widely viewed as a universal currency, not just a commodity. It's also smart to have different kinds of assets. A diversified portfolio is often more secure and better performing than a portfolio that only has one kind of asset, unless you know that one asset well.

Raymond E. Lombra, Ph.D., is Senior Adviser to the Dean and Professor of Economics at Penn State University. He joined the faculty in 1977 after serving as a senior staff economist at the Board of Governors of the Federal Reserve System and became associate dean at Penn State in 1992. He was a popular and award-winning teacher of macro-economics and a specialist in monetary economics with a focus on central bank policy, financial markets, and international finance. He has published over 75 articles and six books. His money and banking text, co-authored with Maureen Burton, won an award as text of the year, and his most current work has helped explain some anomalies in asset pricing.

Dr. Lombra has conducted a number of studies relating to gold and rare coins related to traditional portfolios. His most recent summary of findings from "The Investment Performance of Rare U.S. Coins from January 1979 to December 2018," as commissioned by Blanchard & Co., the highly respected rare coin and precious metals dealer, are highlighted here:

- Over the last 40 years, high quality coins and stocks had the highest average annual returns.
- At the same time, the annual returns on stocks, gold, and coins were the most volatile.
- Taken together, these findings suggest that holders of stocks and coins were "rewarded" for bearing the extra risk thought to be associated with larger fluctuations in annual returns.
- The correlation of the return on coins with inflation over the last 40 years is well above that of other assets considered, and twice that of gold; thus, the contention that gold is a better hedge against inflation than, say, rare coins, is not supported by the data. More generally, hypothetical portfolios containing stocks, Treasury bills and bonds, and a modest proportion of rare coins generally perform somewhat better than those without coins or those with a modest proportion of gold, over the past three to four decades and for various sub periods. The findings also imply that when inflation turns up, the response of coin prices could well be quicker and larger than the returns on most other assets.



Informed Investing: Efficient Frontier – 1979-2018

Source: L.A. Research, Pennsylvania State University.

The results continue to suggest that over the longer run including rare U.S. coins within an existing portfolio could improve investment performance. This is especially noteworthy given the balance of risks confronting global equity markets in 2019 and beyond.

The chart shown here shows the smoothing effect the addition of coins has on investment holdings.

This is the methodology applied in the chart:

Annual coin returns were calculated based on a weighted price index of rare coins. The index was constructed using price data for 67 of the most commonly traded U.S. silver and gold coins from the *Coin Dealer Newsletter* for the first week of January in each year from 1979-2019. Although each coin type in the price index was given equal weight, the individual coin prices themselves are actually a weighted average of the prices of various qualities of each coin type, with the weights depending on the population counts. To ensure the robustness of the results reported, various alternative weightings were done to compare returns and standard deviations based on quality selections.