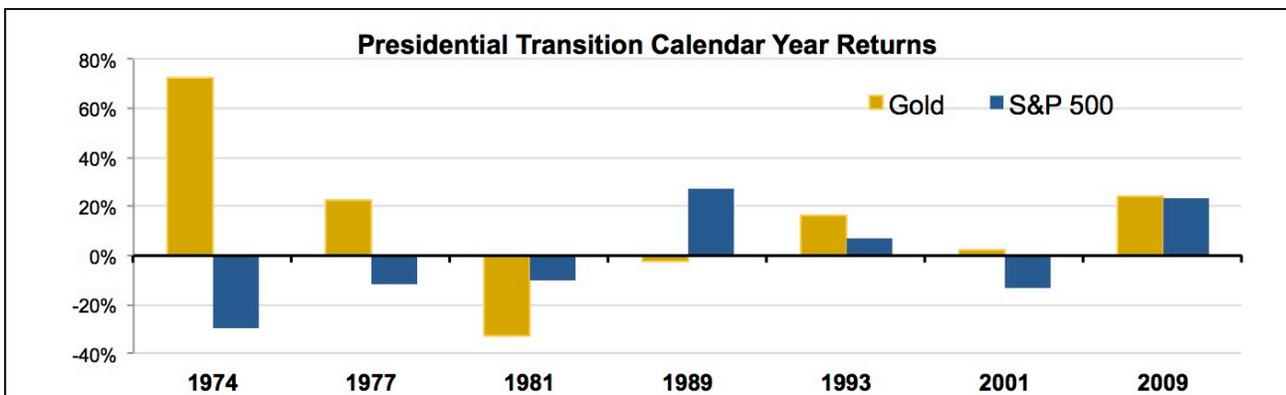




## Gold in Presidential Transition Years

We get a lot of questions on how gold will perform in 2017. While we have no crystal ball, we thought the tidbit below might be of interest to you as you evaluate whether adding a gold component might provide valuable diversification to your portfolio.

Please consider the chart below:



Year	Leaving Office	Taking Office	Calendar Year Returns	
			Gold	S&P 500
1974	<i>Nixon</i>	<i>Ford</i>	72.3%	-29.7%
1977	<i>Ford</i>	<i>Carter</i>	22.6%	-11.5%
1981	<i>Carter</i>	<i>Reagan</i>	-32.6%	-9.7%
1989	<i>Reagan</i>	<i>Bush</i>	-2.2%	27.3%
1993	<i>Bush</i>	<i>Clinton</i>	16.8%	7.1%
2001	<i>Clinton</i>	<i>Bush</i>	2.5%	-13.0%
2009	<i>Bush</i>	<i>Obama</i>	24.4%	23.5%
2017	<i>Obama</i>	<i>Trump</i>	??	??
<b>Average in Presidential Transition Years</b>			<b>14.8%</b>	<b>-0.9%</b>
<b>Annual Average from 1974 to 2016</b>			<b>8.4%</b>	<b>9.0%</b>

Source: Bloomberg, Merk Investments LLC

Since Nixon took the US dollar off the gold standard in 1971 there have been seven Presidential transition years, i.e., years when a new president was inaugurated. Those years were 1974, 1977, 1981, 1989, 1993, 2001, and 2009.

Looking at the data, gold achieved above average returns during those calendar years, +14.8% in Presidential transition years vs. an overall average of +8.4%. Perhaps equally important is that those have been years when the S&P 500 greatly underperformed its average over that same time period, -0.9% in Presidential transition years vs an overall average of +9.0%.

The S&P 500 on average was negative for those seven calendar years of Presidential transition. The average return in Presidential transition years is +14.8% for gold and -0.9% for the S&P 500.



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One possible theory as to why this might make sense is policy disappointment of a new incoming administration, the high hopes of the newly elected administration may be tougher to achieve in practice, leading to weakness in equity markets. In addition to policy disappointment may be a general sense of policy uncertainty as the rules of the game potentially change under a new administration, which might boost gold as a safe haven.

One caveat is that seven transitions is a small sample size; the reason we limit ourselves to transitions since 1971 is because before gold was pegged to the dollar in one form or another for much of US history.

Axel Merk  
Merk Investments, Manager of the Merk Funds

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