



## Gold is Not an Investment

### Description

The gold bull market is over.

After 13 straight years of gains, the yellow metal is poised to finish the year down almost 30%.

Goldbugs suspect price manipulation among other causes for the setback. Many claim that the current retracement is an unbelievable buying opportunity. They may be right.

But none of this changes the fact that gold or related exchange traded funds like the **SPDR Gold Trust** (NYSE:GLD) or the **Sprott Physical Gold Trust** (TSX:PHY.U, NYSEMKT:PHYS) are simply bad places to store your wealth over the long haul.

### The goldbug thesis is in tatters

The argument is simple: uncontrolled money printing from global central banks will unleash a wave of inflation as the value of fiat currencies plunge to zero.

Indeed, since the start of the financial crisis the U.S. Federal Reserve has expanded its balance sheet by over US\$3 trillion — money created out of thin air. Surely more dollars chasing the same assets would push up the nominal prices especially for precious metals.

But it hasn't happened. In both the United States and Canada, inflation as reported by the consumer price index is scantily above 0%. Commodity prices — including gold, silver, copper, corn, wheat, etc — are nearing 52- week lows. Treasury Inflation Protected Securities, or TIPS, serve as a good gauge for the market's inflation expectations. But these are projecting flat prices for as far as the eye can see.

Why were the goldbugs so wrong?

They forgot that most of the money in circulation is controlled by the private financial sector. While the Fed may be running the printing press as fast as they can, it's being counteracted by defaults in the banking system and a deleveraging consumer.

It's the answer to the age-old question as to what happens when an unstoppable force meets an

immovable object. The answer: absolutely nothing.

Now some goldbugs may argue that there is rampant inflation in the economy but the government is underreporting it. But this is unlikely. If inflation were running at a double-digit pace and given salaries have been roughly stagnant, real incomes would've fallen almost 40% over the past five odd years.

I think everyone can agree that we all feel a bit poorer since the hay days of 2006. But are we really that much worse off? I doubt it.

And if inflation was running as high as the goldbugs claim, why aren't we seeing it play out in the commodity markets? These are prices that the government can't manipulate.

### **Gold is a bad investment**

Of course, I don't have a macroeconomic crystal ball. The next inflation contagion may be just around the corner. But even given the collapse of the dollar, gold is still a bad place to store your wealth.

Let's imagine if we had \$100,000 to invest for the next 50 years. In this scenario we have three asset classes to chose from; cash, equities, and gold.

In the case of cash, the goldbugs are absolutely correct. It's a terrible place to store your wealth.

Assuming a 3% annual inflation rate, after 50 years the real value of your cash pile will have shrunk to \$21,807.

You're better off going to Vegas. And any 1970's like inflation spiral could wipe you out completely.

How about equities?

Let's take the **S&P/TSX Composite Index** (^OSPTX) as an example. This is a collection of nearly 300 wonderful businesses. Over the next five decades these companies will spin off trillions of dollars in profits and dividends to shareholders.

These businesses will continue to generate wealth for investors regardless if it's priced in dollars, gold, or bitcoins.

Since its inception in 1977 the S&P/TSX Composite Index has returned 5.5% annually. So if equities can generate a comparable return in the future, after 50 years the value of your capital in today's dollars will have grown to \$343,710.

And what about gold?

Well, it just sits there in a vault. You can fondle it. You can make a necklace out of it. But at the end of our 50-year thought experiment and assuming gold prices track inflation, you're no better off than before. Maybe even a little poorer after storage fees, taxes, and insurance costs.

### **Foolish bottom line**

Sure, if the U.S. Dollar collapses within the next few months the goldbugs will come out ahead. But we've been hearing that story since the 1970's.

The financial apocalypse aside, civilized people invest in productive businesses and not shiny pieces

of metal.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. NYSEMKT:GLD (SPDR Gold Trust)

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