3 Reasons You Don't Need Exposure to Gold

Description

From 2000 to 2011, investing in gold had a lot of appeal. After all, its price increased from roughly US$300 per ounce to nearly $1,900 per ounce. Better yet, it was seen as a safe asset, one that would help smooth the bumps of the stock market. For this reason, there was a general consensus that everyone should have at least some exposure to gold.

But since then, gold has plummeted, and now trades around US$1,200. If that seems like a steep drop, many companies that produce the stuff have seen their stocks fall even more.

Is it still important for every investor to have at least some exposure to gold? My answer is no, and below are three reasons.

1. Gold is not really a source of stability

First of all, the idea that gold is a safe asset should be seen as ridiculous by now. If the recent price drop isn't enough to convince you, just look at what happened in the 1980s. In January 1980, gold peaked at US$850 per ounce, prompted by worries about the Iranian revolution and Soviet invasion of Afghanistan. The metal soon plunged to around $300.

Even today, gold continues to fluctuate wildly, based mainly on how speculators are feeling. As a result, gold mining stocks can bounce around too. To illustrate, **Yamana Gold Inc.** (TSX: YRI)(NYSE: AUY) has been on a wild roller coaster ride. From Tuesday to Friday of last week, the shares declined by a whopping 15%. Then on Monday, the shares rallied by nearly 12%. That doesn't sound like stability to me.

2. Gold doesn't really protect you against inflation

Gold doesn't really protect you from inflation. In fact, it's better defined as a defence against the *fear* of inflation. In other words, when people are afraid, gold does well. Otherwise, it suffers. If you don't believe me, just look at when gold nearly reached $1,900 in 2011. This was also when Greece and the European Union were dominating headlines.

Meanwhile, inflation (especially in the United States) remained very low during gold's rally.

3. Mining gold is a terrible business

This should not be news to anyone — mining gold is an absolutely terrible business. Let's look at **Kinross Gold Corporation** (TSX: K)(NYSE: KGC) as an example.

As gold was running up, Kinross was unable to fully take advantage. Acquisitions were expensive, costs went up, and the company naturally lost its discipline. Governments (such as the one in Ecuador) became too demanding. Everyone wanted a piece of Kinross's success. And Kinross couldn't just relocate to a lower-cost jurisdiction; the company was stuck where the gold was.

But now, with the company struggling, no one wants to share in the company's failure. As a result, the company is far worse off than it was in 2010 (when gold first traded for US$1,200 per ounce).

So the moral of the story is quite simple: you don't need to own gold just for the sake of it.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

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bensinclair