3 Reasons Gold Will Likely Stagnate in 2017

Description

This year was supposed to be the year gold finally rebounded from a steady downward trend, as geopolitical uncertainties, an impending Brexit, and Trump election, along with a myriad of other major concerns for financial markets, were supposed to trigger a jump in the price of gold. Instead, exactly the opposite has happened. I'll be looking at why this was the case for 2016 and why 2017 could be much of the same for gold.

Money is still cheap, and the stock market keeps ticking up

We're now in the realm of "Dow 20,000," and investors and analysts around the world are putting their celebratory hats on, waiting for the market to cross the psychologically important threshold.

The stock market has returned excellent yields in the years following the Great Recession, and monetary policy has allowed investors the ability to lever up at relatively cheap rates of interest, brewing a dangerously delicious cocktail that everyone on Wall Street seems to be drinking.

In other words, there seems to be little room for gold in a levered portfolio of income-producing assets at this time. Companies such as **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG) show stock market return curves similar to those of the gold commodity price index, so if you're looking to large gold companies for diversification, you'd better be prepared to play the price of gold.

Gold is a fundamentally bad insurance policy

Warren Buffett has famously said that all the gold in the world, if melted into a giant block, would approximately fill the contents of a 20? x 20? room. He has asserted that this block of gold can't produce anything or create any wealth. It is merely a shiny metal with little or no value, other than the fact that it is a store of value and can be readily traded.

While gold does look really cool, the fact that it is an unproductive asset class can't be disputed. The goal of financial markets is to outperform inflation, and in that regard, gold does a very bad job of actually storing your money (when adjusting for inflation, see next point).

Gold generally increases in line with inflation

This is a really important insight. Due to the nature of gold being little more than a store of value (it can't produce dividends or generate exponential growth returns as a company can), it typically increases in value in relative lockstep with inflation. As inflation rises, the amount of money available to purchase gold will increase, and thus gold should, in theory, represent inflation quite well.

In today's economic environment of very low inflation, it is reasonable to expect that gold will not fluctuate upward with impressive force, barring an economic catastrophe in which investors flee the stock market and choose gold as the "safety net" of choice, as in the early years of the Great Recession. To put this in perspective, the inflation estimates for 2017 have been revised upward from 1.5% to 2.2%. While 0.7% represents an increase of approximately 50% over initial estimates, it's still only 0.7%.

If you believe the stock market will return more than 2.2% or that others believe the stock market can beat inflation at 2.2%, you'd be better off delaying your gold purchases until we see some real volatility in the markets.

Stay Foolish, my friends.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Msn
2. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/09/13
Date Created
2016/12/23
Author
chrismacdonald