Does Global Conflict and Uncertainty Lead to a Higher Price of Gold?

Description

The popular belief that I've heard is that when there is a lot of uncertainty, or when people are fearful, gold appreciates in value. The theory for this is that gold symbolizes stability since it is a commodity that can be used to store wealth, rather than depositing money into a bank account. Money can be devalued due to currency and inflation, but gold is much more stable since its value is not dependent on any single economy and its policies.

If the price of gold goes up, then producers and miners like **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) will certainly stand to benefit. The difficulty is in being able to accurately predict whether or not the price of gold will, in fact, rise.

I will look at some of the most significant events in the past 30 years to see what impact they have had on the price of gold, and whether or not conflict and uncertainty can be a predictor of gold prices.

Gulf War (August 1990 – February 1991)

Before the war had started, July 1990 saw the price of gold reach highs of around $373, and the price increased up to a high of $415 in August. However, by the end of the conflict, the price of gold was back down to $371. In this example, it looks like the war may have had a short-term impact on gold prices.

9/11 terrorist attacks (September 2001)

The month before the 9/11 attacks took place, gold was trading at highs of $280. Six months later, the price of gold increased to just $308, for an increase of only 10%.

Dotcom crash (2002)

Internet companies were flying high at the turn of the millennium. In 2002, when WorldCom filed the largest bankruptcy ever, the price of gold was at highs of $320. The following July, the gold had jumped to $362, and a year after that, gold was trading at $397.

Subprime mortgage crisis (2007-2008)

In 2007, the subprime mortgage crisis hit, and in September 2008, the Lehman Brothers filed for bankruptcy. In January 2007, gold was trading at a high of $655, and by the end of 2007, it was up to $843 for an increase of over 28%. By comparison, the prior year saw gold prices rise by 13%. In September 2008, the price of gold reached a high of $919, and by February, the price breached $1,000.

At first glance, it looks like these crises may have pushed the price of gold upward. However, even before the 9/11 attacks, the price of gold had already started on a persistent incline that would last a decade.

Bottom line

Today, we face a new risk with the United States and North Korea, and history suggests the price of gold might not be impacted by the conflict, regardless of the outcome.

The one conclusion I can make from these findings is that while gold prices can certainly be influenced by a crisis in the short term, those effects do not last. Gold appears to be impacted by long-term trends made up of many different variables and cannot easily be derailed.

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