Is Gold Good Now?

Buying gold is the oldest investing activity that we still consistently engage in today. Gold coins, by some estimations, first appeared around 800 B.C., with the first pure gold coins of King Croesus of Lydia appearing around 500 B.C. People have continued to hold gold for various reasons, ranging from use as a common currency, a highly valued passive investment asset, a tradeable commodity, or protection in bad times. Societies, and now economies, have placed value on gold, thus perpetuating its worth. In times of fear, we fall back on it whenever other forms of currency become in doubt.

To some, it is like an insurance policy against economic collapse. Others say it is a commodity with no real investment value.

Gold as a No

Gold cannot be an investment since it will never produce revenues or earnings.

Any growth in its value depends on the belief that someone else will pay more for it eventually. Gold is an unproductive asset. Unlike shares or bonds or deposits, gold as an investment does not contribute to any kind of economic growth. A pile of gold will stay the same pile of gold, no matter how much time passes.

Other comparative commodity-like assets, while not producing income streams directly, have intrinsic value based on their utility and value in potential production. For example, timber is a commodity, and yet it can help build housing and other useful goods; oil can power engines that transport people or that produce other goods. An equivalent amount of your gold investment made in a business or any other productive economic activity will generate actual wealth and will grow larger in a very fundamental way.

The only use of gold is some industrial applications, but those are satisfied by just a fraction of gold produced. This demand plays no role in its price.

☑ Yes to Gold

The value of gold has always been driven by the fear that other asset classes (primarily paper currency) will lose value.

A hedge against inflation is the number-one historical and current reason for gold. For almost 50 years, the paper currency in the U.S has no longer been based on a relationship to gold as the underlying asset. So, owning gold is a check against the fiat currency that is printed today at unbelievable levels.

Gold serves as a component of portfolio diversification. Proper diversification is finding investments that are not closely correlated to one another and thus do not rise and fall simultaneously. Historically, gold has a negative correlation to stocks and other financial instruments. In the 1970s stagflation era gold soared; it languished for most of the 1980s and 1990s only to have a brief renaissance from 2007 to 2010.

Deflation is defined as a period in which prices decrease when business activity slows, and the economy is burdened by excessive debt. This has not been seen globally since the Great Depression until a small degree of deflation following the 2008 financial crisis in some parts of the world.

During the Depression, the relative purchasing power of gold soared while other prices dropped sharply. This is because people chose to hoard cash, and the safest place to hold cash was in gold and gold coin at the time (an extension of the “bad times” reason for keeping gold). In the last 100 years, many parts of the world have undergone some upheaval that has led to a breakdown of society and institutions. In these circumstances, physical gold is a currency that can survive when paper currencies do not. We have multiple historic examples in Germany, Russia, Argentina, Zimbabwe, and many others where the financial systems did fail at one time, overloaded by a mountain of debt and mismanagement. The current experiment in Japan for the past 20 years and presently in the United States can lead some to look very cautiously to the past.

Gold is best viewed as an alternate currency. If you fully trust the modern financial system with all its options of a large variety of asset classes, then you should not invest in gold. Gold makes the most sense for those who have no access to or trust in the financial system.