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Gold Price Drops Not Convincing Fans To Move Away From Investments

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Over the span of the past 18 months, Gerald Celente has seen his gold confiscated, lost in the shuffle of a bankruptcy proceeding and then decimated in price. The ordeal, particularly the stomach-churning price dip, might have caused some other investors to exit the gold market altogether.

But Celente, an independent investor in Kingston, New York, says those events have scarcely diminished his view that gold is one of the best investments to hold at the moment. If anything, he says, they've reaffirmed them.

"There's a panic in the market, but the fundamental reasons for buying gold remain," Celente told The Huffington Post Tuesday, a day after gold suffered the largest one-day price drop in 30 years. "I don't know what's going on behind the scenes. I don't know if the central banks are in collusion. Here's what I do know: when there's no reason to hold debased currency, there'll be a reason to hold gold."

Celente, an opinionated investor who publishes his own newsletter, holds what financial blogs sometimes disparage as "goldbug" views. The core belief runs something like this: The global financial system is doomed. As central banks around the world try to stimulate weak economies by printing money -- as most monetary authorities are doing at the moment -- they'll inevitably deliver hyperinflation. And when this unavoidable collapse comes, rendering paper money worthless, those who invested in gold will have something with intrinsic value stashed safely in their vaults.

Because of the apocalyptic nature of that view, and the vociferous personality many who harbor it seem to share, recent price drops in gold have caused some to respond with unmitigated schadenfreude. On Monday, as gold prices went into freefall, longtime critic and NYU professor Nouriel Roubini tweeted to his nearly quarter million followers that so-called goldbugs were "in stupefied catatonic state as gold now has fallen from a peak of $1950 in 2011 to $1350 today."

"Eat your gold!" he added.

But the ridicule has been in vain, as the same worldview that's prompted many to amass as much of the commodity as they could over the past few years remains intact.

"Gold is going up because central banks around the world have decided to debase their currencies, making them worthless by printing more and more of them," Celente said. "At some point, there's going to be a crisis when there's no more point to the printing."

"You either believe in that or you don't. And I believe in it," Celente added.

Andrew Jarmolkiewicz, CEO of Bahamas-based hedge fund West Key Asset Management, believes gold is a good long-term investment, even if he doesn't quite foresee a total collapse of the global economy.

Jarmolkiewicz said gold -- particularly physical gold that can be easily accessible -- will increasingly be sought by investors who are scared the government will one day confiscate their assets to stave off a financial calamity. Short of that occurring, he says, gold is a way to protect wealth against inflation.

"The fundamentals for gold have never been stronger," Jarmolkiewicz said. "The uncertainty in deposits in many countries is now immense, particularly for wealthy people, and they're going to have no other option."

"The more wealthy people I speak to, the more I hear the same: they've never been more scared about the safety of their money in banks," he continued. "You want to have some of your wealth, basically, to hand."

One of the largest known gold investors in the world is New York-based based hedge fund Paulson and Co. Over the past several days, as gold prices have plummeted, Bloomberg estimates the fund's owners have lost over $1.5 billion.

John Reade, the fund's gold strategist, said in an email Monday that while the price of gold had dipped recently, it was still above the average price of $950 per ounce that the fund paid for its holdings. And in any case, Reade said, a temporary dip does not change the minds of Paulson and Co. as to the reason for buying gold in the first place.

"Federal governments have been printing money at an unprecedented rate, creating demand for gold as an alternative currency," Reade said. "It is this expectation of global paper currency debasement which makes gold an attractive long-term investment."

Some academic economists dispute whether the argument being made by goldbugs is rooted in fundamental finance.

Campbell Harvey, a professor at the Duke University Fuqua School of Business, is a renowned expert on asset pricing theory -- how investors determine the price of specific assets. On Monday, Harvey a published a paper that concluded the price of gold at the moment is more than twice what it should be, given historical records.

Crunching data that dates back to the age of the Roman Empire, Harvey found that “over extremely long time frames,” gold is a poor defense against inflation.

“Certain holders of gold, and I do think they’re part of the people driving the value, say they’re doing it to hedge against a huge disaster,” Harvey said, “It wouldn’t be effective.”

Harvey explains the problem thus: since most economic calamities are not felt equally across the globe, people are unlikely to flock into gold at any considerable rate in the future, even if a few countries do experience very high inflation. He gives the example of Brazil during the 1980s, when people in the country struggled to deal with hyperinflation.

“At the beginning if people there had put their money into the local currency, that would have been bad, because the currency ended up being worthless,” Harvey said. “But if they had held gold, they would have lost 70 percent of the value.”

There are cases where holding gold simply based on the assumption that it will protect against inflation make sense, according to Harvey, but they are extreme.

“If you believe the scenario where the world goes into a death spiral, then it might make some sense to go into gold,” Harvey said, adding, “That belief would be a forecast not based on history or probability.”

Ryan Monte, a trader in Toronto, said he used to hold views similar to those of Celente, Jarmolkiewicz and Reade, buying gold he believed would keep ballooning in price for as long as governments around the world continued to print money. But after the U.S. Federal Reserve announced its most recent round of money-printing, colloquially known as QE3, he re-examined his views.

“I originally bought into the idea that when money is printed, gold will appreciate because it’s supposed to be an inflation hedge,” Monte said, “but once QE3 announced, and gold failed to make a higher high, I discarded that.”

“The whole thesis just doesn’t fit any more,” he added, “Inflation has been at around 2 percent and holding steady. We're not seeing the doom and gloom inflation predicted by gold bugs.”

He warned, “Gold has almost a cult-like following, and we all know how that usually ends."