

Research**Gold unreliable as hedge against inflation**

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Research suggests gold only acts as a hedge against inflation for investors with extremely long-term investment horizons

By Fiona Collie | November 04, 2013 17:15

Investors who view gold as a hedge against inflation need to re-evaluate their portfolios, according to Campbell Harvey, professor of finance, Duke University, in North Carolina.

"For the fear of inflation, you're taking a lot of risk by betting on gold," said Harvey, speaking at a CFA Society Toronto event on Monday where he discussed the findings of his research report, the *Golden Dilemma*, co-authored by Claude Erb.

Taking a comparative look of the U.S. inflation rate over 10 year periods with the nominal and real price of gold for the same time, said Harvey, reveals that inflation remains relatively constant while the price of gold is very volatile.

As well, looking specifically at Brazil, gold failed to act as an efficient hedge during the country's period of hyper-inflation between 1980 and 2000. During that time period the annual inflation rate was 259%, said Harvey, and wealth kept in the Brazilian currency lost virtually all of its value while wealth invested in gold would have lost 70% of its value. While gold provided less of a loss than the Brazilian dollar, he said, other investments such as government bonds or U.S. dollars would have acted as a better hedge against inflation.

Harvey admitted that gold may have proven a better hedge against hyper-inflation during some historical periods, but he argued that it is simply too unreliable to be an effective strategy.

Instead, gold only acts as a hedge against inflation for investors with extremely long-term investment horizons. As part of his research, Harvey compared the salary of a current day U.S. army captain with a Roman centurion. The comparison revealed that when measured in gold ounces the salaries of the military men were virtually the same.

"Gold is a terrible inflation hedge over shorter horizons [of 10 to 20 years]," said Harvey. "Gold is a great inflation hedge if your investment horizon is measured in millennia."

While gold is not an effective inflation hedge, Harvey still sees value in investing in the commodity. "Gold should be part of a portfolio," he said, "but it shouldn't be a stand alone and it shouldn't be there to hedge inflation."

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