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Duke's Harvey: Gold's Fair Value Is \$800

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By: Dan Weil

Gold is set to drop 38 percent from current levels, as it returns to its historical mean, says Campbell Harvey, a professor of international business at Duke University.

His study of 2,500 years of gold prices shows that the real — inflation-adjusted — price of the metal hasn't changed much during that period, Harvey told CNBC.

"Right now we're way above the mean," he said. "Our analysis suggests fair value would be approximately \$800."

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That compares with a spot price of \$1,295 an ounce Tuesday morning and a record high of \$1,921 in September 2011.

There's actually a good chance the precious metal will fall below \$800, Harvey noted. "If you look historically, it doesn't just go down to the average and stay there. It actually ... falls below, then comes back up."

Campbell doesn't expect an instant move down. "It might not be tomorrow," he stressed, but "the cycles go in 10 to 15 years, and we're well into one of these cycles."

The issue now is demand, given that gold supply doesn't change much, Harvey explained. And he believes that China's economic slowdown will curb demand there.

For the short term, however, some experts believe Federal Reserve Chairman Ben Bernanke's recent remarks that the Fed will maintain a very loose monetary policy are supporting gold.

"Bernanke's comments put some positive feeling back into gold," Dan Denbow, a manager of the USAA Precious Metals & Minerals Fund, told Bloomberg.

"The Fed has been working hard to show that taking back a little bit of bond buying isn't removing accommodation, and Bernanke was very firm on that. There was a bit of a sentiment shift."

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