Gold collapses - confidence rises

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For most of the gold ownership is a form diaasfalisis against war, economic katarrefsies and humiliation of money. And from the onset of the global financial crisis, the price of gold is often depicted as a barometer of global economic insecurity. Perhaps then the collapse of gold prices, from a peak of $ 1,900 per ounce in August of 2011 to less than $ 1250, earlier this month, represents a vote of confidence in the global economy?

To say that the gold market exhibits all the classic characteristics of a bubble is oversimplified. There is no doubt that the heady rise of gold from around $ 350 per ounce in July 2003, made shawls investors running. The price rose one day, because everyone had persuaded to grow further in the next.

Many began to sell shares and buy gold coins. Demand for gold jewelry in India and China surged. Central banks in emerging markets began to differentiate from dollars to gold.

The gold market had several strong components. Ten years ago, gold vrsikotan well below the long term average, adjusted for inflation. The integration of the three billion people in emerging markets in the global economy could only mean a huge boost to the long-term demand.

This element of the story, incidentally, is still valid. The global financial crisis added to the allure of gold, because of the initial fears of a second Great Depression. Later, some investors began to fear that governments will raise inflation to ease the burden of soaring public debt and to address persistent unemployment.

As central banks have brought interest rates to zero, no one cared that gold had rates. So it is nonsense to say the rise in prices was a bubble. But it is also true that as the price rose, an increasing number of gullible investors tried to buy.

Lately, the basic principles have been reversed somewhat, and the speculative frenzy has been reversed even more. China's economy continues to reduce its pace. The growth rate of India is down sharply compared to a few years ago.

Hand, despite the reckless fiscal escrow, the U.S. economy seems to heal gradually. Global interest rates have risen 100 basis points since the Federal Reserve began to suggest - very early - rather that it downshifts to quantitative easing.

With the Fed emphasized their strong anti-inflationary stance, it is difficult to argue that gold investors are secured against high inflation.

As doctors and dentists who buy gold coins two years ago to get rid of now, it is not yet clear whether the downward trend will stop. Some have as aim the psychological barrier of $ 1,000.

In fact, the pros and cons of gold have not changed much since 2010. In October of that year, the price of gold was on the rise, having reached $ 1.300.

But the benefits of holding gold has never speculation. In contrast, gold is the offset. If you are a high net worth investor, or a sovereign wealth fund, it makes perfect sense to keep a small percentage of your assets in gold as a hedge against extreme events.

Gold as an investment would also make sense for the middle class and poor households in countries such as China and India, for example, significantly limited access to other financial investments. For others, gold is just another gamble, gambling. And as with all gambling, it is not necessary always to win one.

If governments were holding steady the price of gold, as they did before the first world war, the market will inevitably become dangerous and unstable. In a study published in January, economists Claude Erb and Campbell Harvey looked different possible models of the fundamental values of gold, and found that gold is at best only loosely correlated with any of them. Instead, the price of gold often seems to be drifting far above or far below the fundamental long-term value for long periods. This behavior is not unlike that of many other financial assets, such as exchange rates and stock prices, although fluctuations in gold prices may be more extreme.

The recent collapse in the price of gold has not really changed the 'value' of an investment. Yes, prices could easily fall below $ 1,000, but then again, you could also grow. Meanwhile, policy makers should be cautious in interpreting dip in gold prices as a vote of confidence in their performance.

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