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Golden Dreams

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The Chinese economy continues to slow, the growth rate of India wa what was observed a f despite the bad decision to allow ac automatic budget cuts, the U.S. eco heal gradually.

In principle, save gold is a form of insuranc financial Armageddon and a sharp depreci currency. And, since the onset of the global financial crisis, the price of gold has often been seen as a barometer of global economic uncertainty. So, will the fall in gold prices is a vote of confidence in the global economy?

say that the auriferous market shows all the classic characteristics of a bubble that broke it oversimplify the issue. There is no doubt that the strong rise of gold to its peak, from a level around $ 350 per ounce in July 2003 left investors salivating. The price went up today because everyone was convinced that would rise even more tomorrow.

and buy gold coins. The demand for gold jewelery in India and China rkets have begun to diversify their reserves by selling dollars and buying gold.

's case buying gold weight had several components. 10 years ago, gold was sold at a price well below its long-run average adjusted for inflation, and the integration of the three billion people in emerging markets in the global economy could only mean a giant long-term increase in demand.

This element of the story, incidentally, is still valid. The global financial crisis contributed to the attractiveness of gold, initially due to fears of a second Great Depression. Subsequently, some investors began to fear that governments give free rein inflation to decrease the burden of rising public debt and to combat persistent unemployment.

When central banks opted to policy interest rates around zero, nobody worried about the fact that gold does not earn interest. Therefore, it makes sense to say that the increase in gold prices was purely a bubble. But it is also true that, as the price rose, more naive investors wanted to buy it.

Lately, of course, fundamental reversed somewhat speculative frenzy and even reversed. The Chinese economy continues to slow, the growth rate of India was extremely low compared to what was observed a few years ago. However, despite the bad decision to allow activassem if automatic budget cuts, the U.S. economy seems to heal gradually. Global interest rates increased 100 basis points since the U.S. Federal Reserve began to suggest - quite prematurely, in my opinion -. Would start reducing stimulus to the economy, translated in "quantitative easing"

Once the Fed limited to underline its strong will to contain inflationary trends, it is even more difficult to say investors need gold as a hedge against high inflation. And as doctors and dentists - who two years ago bought gold coins - now begin to dispose of these assets, it is still unclear which is the spiral of falling prices will stop. Some point the psychological barrier of $ 1,000 per ounce.

Indeed, the arguments for or against gold have not changed that much since 2010, when I wrote about it. In October of that year, the price of gold - the speculative asset based on trust par excellence - was rising, having just reached the $ 1,300. But the real reason to have gold - both then and now - has never been speculative order. Rather, gold is a hedge against the risk. If you are an investor with a high net worth or a sovereign wealth fund, it makes sense to hold a small percentage of their assets in gold as a hedge against extreme events.

Deter gold can also make sense for the middle class and poor families countries - for example, China and India - which significantly limit access to other financial investments. For most other people, gold is just a bet where you can enter. And, as with all gambling, is not necessarily always a profitable investment.

Unless governments establish clearly the price of gold, as they did before World War I, the auriferous market will inevitably risky and volatile. In a study published in January of 2013, economists Claude Erb and Campbell Harvey considered several possible models to determine the fundamental price of gold and concluded that the evolution of the real yellow metal price is not linked with great solidity to any of them. Instead, the price of gold often seems adrift, well above or well below its long-term fundamental value over prolonged periods. (This behavior, of course, is similar to many other financial assets such as exchange rates or equity prices, although fluctuations in gold prices may be more extreme).

fanatics gold sometimes cite historical data suggesting that the long-term value of gold has remained stable over the millennia. For example, the frequently cited 1998 study by Stephen Harmston evokes the fact that an ounce of gold to buy 350 loaves to the time of Nebuchadnezzar, king of Babylon, who died in 562 BC Aside from the fact that the bread in Babylon have was probably healthier than the highly refined product that we see today, the gold price has not budged much since then, giving likely now to buy 600 loaves.

course we do not have annual data of gold prices in Babylon. It can be assumed, given the wars and other uncertainties, actual market prices at that time, as now, were quite volatile.

Accordingly, the recent fall in gold prices not truly changed the reasons for investing in this precious metal in either direction. Yes, prices can easily break the barrier of $ 1,000 per ounce, but once again, will rise. Meanwhile, those responsible for monetary policy should be cautious in the way they interpret the fall in gold prices as a vote of confidence in its policies.

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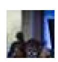

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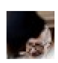

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