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## Advice and analysis

### 'Gold \$ 823 worth'

Tuesday, August 11, 2015 11:30

A new study by scientists Erb and Harvey gold appeared. This time they have explored the relationship between gold and inflation. If this relationship is a fundamental appreciation of gold would indicate, the precious metal is worth \$ 823 per troy ounce. And a process of shooting is \$ 349 possible.

Claude Erb and Campbell Harvey Two scientists with great authority when it comes to resources for research. Earlier (February 26, 2013) I wrote about their study 'The Golden Dilemma. In this study, the scientists tested six arguments used by supporters of investing in gold regularly.

As here illustrated the following pro-gold motivations are given:

1. Gold would be a good inflation protection, or
2. offer good protection against a weakening currency (or gold rises as the currency falls), or
3. a good investment in an environment with low real yields (as now) or
4. a safe haven in times of stress.

In addition, gold would:

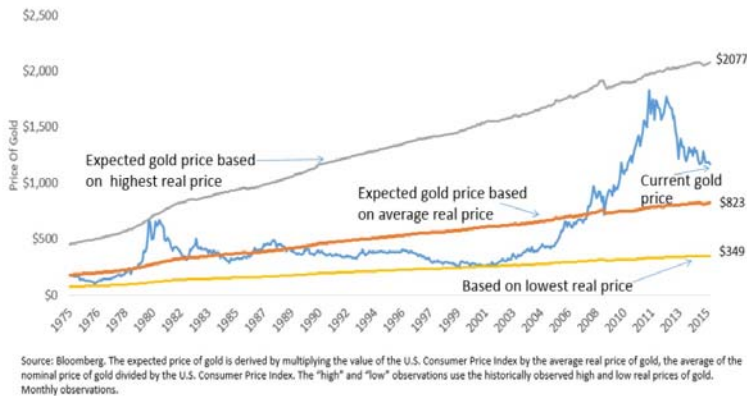
1. are attractive because again we would go toward a gold standard (and central banks to buy gold)
2. (strategic) are underweight in many investment portfolios.

#### "Gold overvalued"

Briefly Erb and Harvey were in previous studies found no statistical evidence for all six abovementioned arguments. The arguments thus use the adherents of gold investors have yet no (scientific) basis.

In a study entitled 'The Golden Constant' they have conducted new research into the potential relationship between inflation and gold. The idea behind this study is to answer the following question: "Suppose there is indeed a relationship between gold and inflation (as is often claimed by supporters of gold investments), what would the gold price be?"

Now, the so-called 'golden constant' value of gold would now be \$ 823 per troy ounce, which is also shown in the following figure. If there is a process of "overshooting" would take place, can be achieved even \$ 349. About Shooting means that the price beyond the supposed equilibrium shoot (upwards or downwards). Hereby sentiments often play a role.



Source: The Golden Constant, Erb and Harvey, August 2015

#### In conclusion

It is difficult for investors to calculate how much gold should be worth. For equities, real estate and bonds future cash flows can be estimated. That can not be for gold. For gold, we have to rely on alleged (statistical) relationships as those between

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the gold price and inflation or currency exchange rates. If the relationship of inflation and gold prices would exist, gold is now too high.



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Source: Investors interests



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All that matters is human behavior that determines the price of gold, because gold is like with everything else: the value is determined by people and so what gives it fooled. Inflation is the same: both are derived from human behavior and can never have a relationship. It may be that there is a certain degree of correlation between the two exists, but it does not say anything about a relation to each other. There is no correlation between the number of times the toilet is pulled and how strong the sun is shining; you bet that there is a significant correlation between these two, but here everyone can do recognize that there is utter nonsense research to do. Why not with inflation and gold price?

Jan August 11, 2015 12:04:36

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