
By **Mark Hulbert**

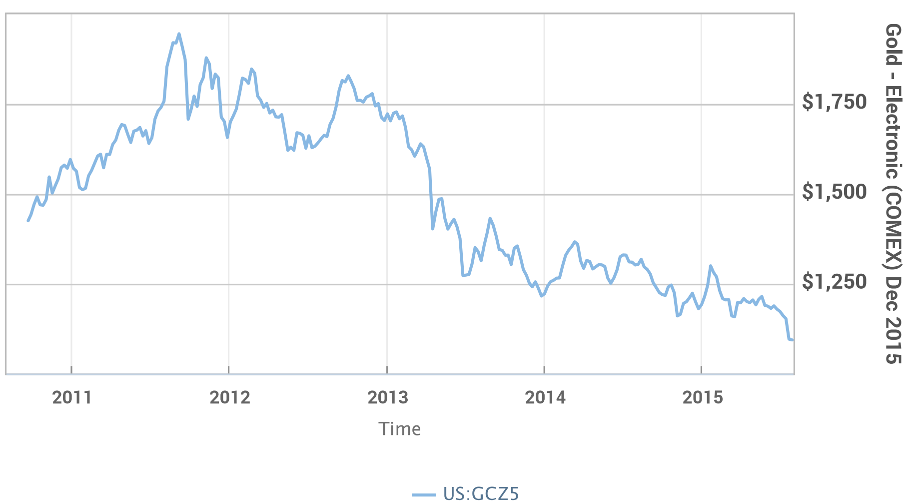
Published: July 30, 2015 7:33 a.m. ET

1,002 139 154 506 Aa

*The authors of a landmark study say the recent decline in prices is just the beginning*


*Claude Erb, left, a former commodities portfolio manager at TCW Group, and Duke University finance professor Campbell Harvey foresee a long-term drop in gold prices.*

CHAPEL HILL, N.C. (MarketWatch) — Gold bugs, who have just begun to digest bullion's more than $100 drop over the past month, need to prepare for the possibility of an even bigger decline.




That, at least, is the fo [...] and co-author (with Campbell Harvey, a Duke University finance professor) of a mid-2012 study that forecast a plunging gold price. They deserve to be listened to, therefore, since — unlike many latter-day converts to the bearish thesis — they forecast a long-term gold bear market when it was only just beginning.

You might think that, with gold now trading more than $500 lower than when the study was released, Erb would declare victory and leave well enough alone. But Erb is doing nothing of the sort. Earlier this week, he told me that the gold community now needs to consider the distinct possibility that gold will trade for as low as $350 an ounce.

Erb bases this particularly chilling prospect on two premises. The first is gold's fair value, which is currently $825 according to the formula proposed in Erb and Harvey's study. The second is the likelihood that, whenever gold does eventually drop to fair value, it will overshoot and drop to a much lower value. He calculates that, if gold drops below fair value to the same extent it did in the mid-1970s and the late 1990s, bullion would trade around $350 an ounce.

Erb acknowledges that gold's true believers will find such a prospect outrageous, if not simply incomprehensible. But, he asks, why should gold behave differently than any other asset, each of which fluctuates markedly from the extremes of over and under value?

Erb uses the five well-know stages of grief to characterize where the gold market currently stands. Those stages are denial, anger, bargaining, depression and acceptance, and he argues that the gold-bug community currently is in the "bargaining" stage.

He argues that, in mid-2012, the gold bugs were in the denial phase. His and Harvey's forecast of gold around $800 an ounce was met with almost total incredulity. Today, in contrast, with gold more than $500 an ounce lower and forecasts of sub-thousand-dollar gold now relatively common, the gold bugs have progressed through the anger phase and are now "bargaining with God."

Erb imagines them saying the functional equivalent of: "So long as gold stays above $1,000 an ounce, I'll go to church every Sunday."

They have not kept up with the times, however. Erb believes the situation is "no longer whether the gold bugs can live with gold at $825 an ounce — it's whether they can live with $350." If and when gold gets there, he confidently adds, the gold bugs will have progressed through the final two stages of grief.

Note carefully that Erb and Harvey's study does not lend itself to short- or even intermediate-term market-timing calls. It would not be inconsistent with their research for gold to now stage a powerful rally, and/or to remain above fair value for quite some time. Erb points out that this is just the same as it is with equities, which, according to the formula championed by Yale professor Robert Shiller, have been overvalued at least since the early 1990s.

It's also worth pointing out that Erb and Harvey's research contains some good news for gold bugs: Over the very long term, gold does keep up with inflation. However, this very long term is measured in terms of many decades, if not centuries.

Over shorter terms measured in years, according to their research, you must take seriously the possibility that gold won't just drop below $1,000 an ounce but, eventually, to a far, far lower price as well.

Click here to inquire about subscriptions to the Hulbert Sentiment Indexes.

## More from MarketWatch

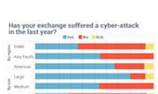
10 most miserable cities in America

What the huge change to how GDP is calculated means for U.S. economy

New Corvette beats a Ferrari — for half the price

## MORE NEWS FROM MARKETWATCH

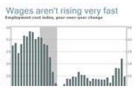
Top Stories | Trending | Recommended



**How vulnerable are the U.S. stock markets to hackers?**


**U.S. stocks inch higher despite drag from energy sector**

**Video: Facebook unveils Internet-beaming drone with wingspan of a 737**




**You can see higher wages everywhere but in the data**


**Exxon, Chevron slump on results; Coca-Cola surges as bottlers mull merger**

## TODAY'S INTEREST RATES

*DATA PROVIDED BY* Bankrate

Mortgage Equity Savings Auto Credit Cards

| | |
|---|---|
| 5 yr CD | 1.48% |
| 2 yr CD | 0.83% |
| 1 yr CD | 0.62% |
| MMA $10K+ | 0.28% |
| MMA $50K+ | 0.46% |
| MMA Savings | 0.33% |
| MMA Savings Jumbo | 0.42% |

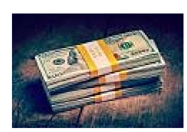
*National averages from Bankrate.com*

## MARKETWATCH PARTNER CENTER

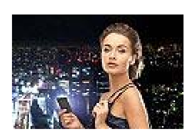

Scottrade
$100 in Transfer Fees Refunded.
$0 Set-Up Fees.


## CONTENT FROM OUR SPONSORS

**Highest Dividend Paying Stocks Today...**
Dogs of the Dow



**How Rich People Use Credit Cards to Their...**
NextAdvisor



**Wearable Tech Is Poised for a Breakout Year in...**
Venture Capital News

**Ken Fisher's +15% Market Prediction for...**
Fisher Investments