One study suggests gold could be headed a lot lower before it trades much higher.

CHAPEL HILL, N.C. (MarketWatch) — Gold most definitely is headed to $25,000 an ounce.

The question is when?

How about 103 years — not until 2118, in other words? Peculiar as that sounds, it actually rests on a strong historical foundation: You just need to assume that gold over the (very) long term will maintain its purchasing power against inflation (which it has over past centuries), and that inflation in the future will be 3% a year (its U.S. average over the past century).

Do you think inflation will be higher than 3% per year? Be my guest — see what you come up with. The table below shows, for each of several possible inflation rates, how many years it would take for gold to reach $25,000.

<table>
<thead>
<tr>
<th>Assumed average annual inflation rate</th>
<th>Number of years to get to $25,000 an ounce assuming a constant inflation-adjusted gold price</th>
</tr>
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<tbody>
<tr>
<td>3%</td>
<td>103 years</td>
</tr>
<tr>
<td>5%</td>
<td>63</td>
</tr>
<tr>
<td>7%</td>
<td>45</td>
</tr>
<tr>
<td>10%</td>
<td>10</td>
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Notice that, assuming gold's inflation-adjusted price stays constant, the precious metal could make it to $25,000 within 10 years if inflation would average 36% per year. To put that in context, you should know that (based on the TIPS market) the 10-year break-even inflation rate currently is 1.84% annually. Gold forecasters are calling for prices to rise to $5,000 an ounce (Peter Schiff's long-term forecast) to $25,000 (Avi Gilbert's 50-year expectation).

To be sure, gold over the short- and intermediate-terms fluctuates wildly even in inflation-adjusted terms. So it's entirely possible that gold could skyrocket in coming years even without double-digit inflation. But such wild fluctuations are a double-edged sword, since they can just as easily lead to a decline in gold's inflation-adjusted price as an increase.

In fact, according to a National Bureau of Economic Research study published a couple of years ago, odds are good that gold's fluctuations in coming years will take its price a lot lower than where it is today. The NBER study was by Duke University professor Campbell Harvey and Claude Erb, a former commodities portfolio manager at TCW Group.

They based their forecast on gold's tendency to revert to whatever its fair value might be — eventually falling to that level whenever it trades much higher, and in due course rising to it when it is a lot lower. And even though no one can know with
precision where gold's fair value stands at any given time, their best estimate from the historical data is that it is equal to 3.46 times the Consumer Price Index's level.

That currently translates to a gold price of $819 per ounce, or more than 30% lower than where it trades today.

Unfortunately, this NBER study doesn't help us to know how long it will take for gold to get back to its fair value. But, if you assume that gold is subject to the same mean-reversion tendency as every other security and tradeable asset, then gold at some point in the future will trade at 3.46 times the CPI.

In other words, even if gold gets to $25,000 an ounce in our lifetime, or our kids' lifetime, it is first likely to trade for a lot lower than where it stands now.

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<tr>
<td>5 yr CD</td>
<td>1.46%</td>
<td></td>
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<tr>
<td>2 yr CD</td>
<td>0.79%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1 yr CD</td>
<td>0.59%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMA $10K+</td>
<td>0.29%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MMA $50K+</td>
<td>0.48%</td>
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<td></td>
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<tr>
<td>MMA Savings</td>
<td>0.34%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>MMA Savings Jumbo</td>
<td>0.41%</td>
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National averages from Bankrate.com

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How will you tell if it's synthetic or real in 103 years. Forget 103 I won't be surprised if it happened in less than half the time.

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