Gold Price could fall to $350/Ounce

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International Desk: A prominent gold forecaster predicts the yellow metal will drop to a mere $350 an ounce, a level unseen since 2003. It’s dramatically lower than what most experts are currently calling for.

But Claude Erb’s prediction might have merit. Back in 2012, Erb, a former commodities trader at TCW Group, co-authored a landmark research paper with Duke University professor Campbell Harvey that was early to predict gold’s downfall. At the time, gold was fetching north of $1,600 an ounce. Now it’s trading below $1,100.

The paper used historical analysis to show that if gold is an inflation hedge — as many people believe — then it’s extremely expensive at current levels.

“Gold is no more or less volatile than stocks or anything else, it can be wildly overvalued, and it’s very overvalued right now,” Erb said.

Erb and Harvey’s research suggests that gold’s fair value is about $825 an ounce. That would represent about a 25% decline from today’s price.

But gold tends to move to extremes before reverting back to its fair value. Gold prices, like stock and bond prices, are influenced by excessive levels of investor optimism and pessimism.
"Markets rarely trade at 'fair value,' rather they tend to overshoot," Erb said.

Their research suggests gold could tumble to about $350 an ounce before it goes back to fair values. Plunging that low would translate to an 80% crash from gold's peak price in late 2011. That's big losses for investors.

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