Chinese demand for gold surpasses world's production. (Photo: Reuters)

Investors who have extensive gold holdings are being warned by a former commodities trader, who had predicted in 2012 the decline of price of the yellow metal, that price of the commodity may plummet to as low as $350 an ounce. Gold is currently trading below $1,100 which means that if Claude Erb's forecast would be correct, it would represent an 80 percent decline from the late 2011 peak gold price of $1,600.

Erb, a former commodities trader at TCW Group, explains that current gold price is so overvalued at present. He estimates that a fair value should shed about 25 percent or $825 an ounce. He says the gold prices are as volatile as that of stocks and other commodities, CNN reports.

Its price is influenced by investor optimism and extremism. Erb adds, "Markets rarely trade at 'fair value,' rather they tend to overshoot."

While gold is considered a good hedge against inflation, Erb and Campbell Harvey, professor at
Duke University, said in a landmark study in 2012 - when they forecast a huge drop in gold prices - that it is extremely expensive at current prices.

However, Wealthdaily points out that for believers in gold as a good investment and inflation hedge, it would remain a good value holder against disaster. “Despite the dwindling number of gold bulls, this still does give it a value that is hard to quantify,”

states the wealth website.

Despite misgivings by gold observers on Erb and Harvey’s study, CNN points out that major Wall Street lenders are cutting their gold price targets. Goldman Sachs forecast gold price would go below $1,000 for the first time since 2009. Morgan Stanley’s prediction is $800 an ounce.

For Wealthdaily writer Jeff Siegel, the best security against shaky economic conditions is not the yellow metal but things that allow a person to live a comfortable life while others are struggling over the impact of failed central planning and fiat currencies. Siegel names these alternative hedges as solar panels, healthy soil and access to clean water, firearms and people whom he could trust.

Tags: gold prices, commodities, inflation, claude erb

Wall Street

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