Stocktake: Gold may disappoint long-term investors

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Gold has skyrocketed recently, surpassing the $2,000 level for the first time before suffering its biggest two-day plunge in seven years last week.

That may be a temporary pullback in an ongoing bull market, but the long-term outlook may not be as bright as gold bug believe.

So says a new paper co-authored by Prof Campbell Harvey, former commodities manager Claude Erb and Ritholtz Wealth Management’s Tadas Viskanta. The paper says that, since the 1970s, high gold prices have occurred during periods of marked concern about high future inflation. Adjusted for inflation, gold prices today are almost as high as they were at the major tops in January 1980 and August 2011.

Inflation fear

However, the real price of gold fell 65 per cent in the five years following 1980’s peak and by 33 per cent in the five years following 2011’s top.

“If gold did not reward inflation fear in 1980 and 2011,” the authors ask, “why should it reward infi

That said, prices may not peak for some time. Investors have piled into exchange-traded funds (ET prices. This financialisation of gold ownership has created “massive passives” that could drive up g

Still, while irrational exuberance may well set in, the paper suggests poor long-term returns await t today’s elevated levels.

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