# The Glitter of Gold

One of the “frequently asked questions” (FAQs) that occurs during financial discussions is, “Should I be investing in gold?”

This question is not one of the most important questions when it comes to building a secure financial future.  But the fact that the question is asked so often means it is of much interest to people and should be addressed.

Perhaps the allure of Investing in gold (or any other commodity) is the hope of striking it rich overnight or the fear of impending economic collapse.  Of course, either of these situations could, in theory, occur, but the possibilities are rather remote.  Even if these events do occur, an investment in gold might not provide the protection you are anticipating.

Nonetheless, the question of gold investing is thought provoking.  It receives a great deal of media attention and deserves to be addressed, if for no other reason than to set the notion aside as “probably not a good idea.”

Should you invest in gold?  The simple answer is part of the four discussions below.

First discussion - gold isn’t really an investment; it’s a speculation.  Even though it’s used to make dazzling jewelry and a few industrial products, gold has absolutely no underlying intrinsic value.  Since it doesn’t earn or pay interest or dividends, there’s no way to calculate its internal rate of return.  It is merely worth what another speculator is willing to pay for it.

Second discussion - gold is not a proven hedge against inflation.  During the ’70s and ‘80s, there appeared to be a correlation between inflation and the price of gold, but that relationship disappeared in the ‘90s.  With inflation low and gold prices high, it’s hard to argue that gold hedges present or future inflation.  There’s little empirical evidence to link the decade-long gold rally with realized inflation, inflation expectations, or the Federal Reserve’s balance sheet.

Third discussion - if there’s a world-wide depression, gold is not the best asset.  The most valued assets during times of a failed economy are unleveraged real estate, an education, some firewood, a tank of gas, and a can of soup.

So what’s all the excitement about gold?  During the decade of the ‘70s, while bond prices fell and stock appreciation lagged, gold rocketed from $225 to more than $2,000 per ounce.  Again, in the decade beginning in 2000, gold again rose from $360 to $1,967.   Even after transaction and storage costs, owning gold during those times would have been lucrative, indeed.

But for the future, there’s really no way to make an educated guess as to whether gold is going to be a good speculation or a bad speculation.  Speculative bubbles do burst eventually, and gold is hovering well above $1,000.  Given the volatile history of gold prices, the real trick is calling the highs and the lows, a task that has proven disastrous for many intelligent investors.

**Fourth and final discussion** -holding 1 to 5% of a diversified portfolio in speculative assets is certainly not the worst idea, IF and only if, you have more than enough for your retirement needs and can accept the possibility of large losses.