

Blog: Cutting Through the Noise

The (De)Merits of Gold

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By Tom Bradley

Howard Marks of Oaktree Capital Management is one of my favourite market analysts. In a [letter published last Friday](#), he takes on the topic of gold. It's a wonderful piece and a must read for anyone who is interested in the shiny metal.

There are too many pearls to highlight in this post, but I thought the following passage was an excellent summary of the arguments for and against owning gold.

I have no doubt: gold is the ideal investment. It serves as a reliable store of value, especially in challenging and uncertain times. It's a hedge against inflation, since its price rises in sympathy with the general level of prices. It exists without the involvement of man-made constructs such as governments. And it's desired and accepted all around the world (and always has been).

The supply of gold is finite. It can't be created out of thin air. Thus it's not subject to dilution or debasement, as is paper currency when governments decide to print more. In comparison, currency can be similarly reliable only if backed by gold.

Finally, gold is tangible, meaning you can take delivery and store it. Most other investment media exist only in the form of figures on a computer screen. But gold is something you can actually hold and know you own. Thus it's one of the few things you can depend on in an uncertain world. Gold is perfect.

Except, of course, gold is nothing but a shiny metal. Since its real-world applications are limited to jewelry and electronics, very little of its value comes from actual usefulness. Further, the amount put to those uses each year is small compared to the total amount in existence, so its value for those purposes is at the margin and can't be of much help in putting a price on the world's gold reserves.

There's little intrinsic to gold that enables it to serve as a store of value and a hedge against inflation. Gold serves those purposes only because people impute to it the ability to do so. It's self-deception, nothing but the object of mass hysteria like that exhibited in "The Emperor's New Clothes." Gold has no financial value other than that which people accord it, and thus it should have no role in a serious investment program. Of this I'm certain.

T: [1.888.888.3147](tel:1.888.888.3147) | E: info@steadyhand.com | [mobile](#)

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