# Goodbye Gold: It's Now Just Another Commodity

By James B. Cloonan

I remember when Business Week ran its "Death of Equities" issue—just before the beginning of the great bull market of the 1980s. Maybe I'll be helping gold in the same way by predicting its demise as anything more than one other commodity among dozens. In fact, it may become even less important than most because its industrial applications are fewer than platinum, copper, or aluminum.

When the "Death of Equities" story appeared, the Dow Jones industrial average was at about 888. At that time, gold buyers—or more likely, gold brokers—were calling attention to the fact that gold had almost attained the level of the Dow Jones average and soon would be "double the Dow." But even with inflation still high, gold collapsed quickly to the 400 level, which it has held, more or less, ever since.

There are still gold buyers out there and a solid number of people who believe the U.S. and the world should be on a hard currency basis. Most of them feel that the basis of a hard currency should be gold.

I think it's time to stop thinking of gold as a financial asset. I disagree with those who say a little gold in a portfolio is a good hedge. Maybe this was true at one time, but it is no longer true and it won't be in the future. All the reasons for viewing gold any differently than copper or steel or aluminum have disappeared.

### How Gold Is Valued

Let's look at the various ways gold can be valued.

First, it is a commodity with industrial applications, including jewelry and decoration. Demand has been fairly steady over the years, but I believe supply is going to increase. The supply of stockpiled gold will increase because people holding it for financial reasons will decide not to and make their holdings available to the industrial markets.

In addition, new methods of recovery in old mines could reduce the production price significantly—perhaps to near $100—and new deposits continually show up. With constant demand and growing supply, I feel there is only one way for gold to go. As growing numbers of investors give up on it, I see a gradual move toward an industrial-based price.

Second, it has been thought of as a hard asset hedge against inflation. But in recent years, and over the long haul, it has not kept up with inflation. One might expect the price of gold, once stabilized as a commodity, to go up every year slightly less than the rate of inflation because of storage charges.

Third, it has been thought of as hard currency in a world thrown into disorder by war, pestilence or economic collapse. However, in true times of devastation, soap, chocolate, guns, ammunition, and food are the real currencies of power. It is unlikely that gold will be an acceptable unit of exchange for much longer.

Fourth, it is believed that gold will swell in value if the U.S. and/or other developed countries switch to a hard-asset economy. I see almost no possibility of such a change.

Even if the world decided to go back to a hard currency, it might not be gold. Every country would like to tie value to the commodity it has—oil, wheat, uranium, diamonds, etc. While compactness and portability were important once, they won't be in the future because we wouldn't carry the commodity itself, but a script based on it.

Fifth, some advisers believe that gold prices move independently of other investment assets and therefore

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reduce the volatility of any portfolio they are in. While some diversification can be achieved with gold, the price is extremely high.

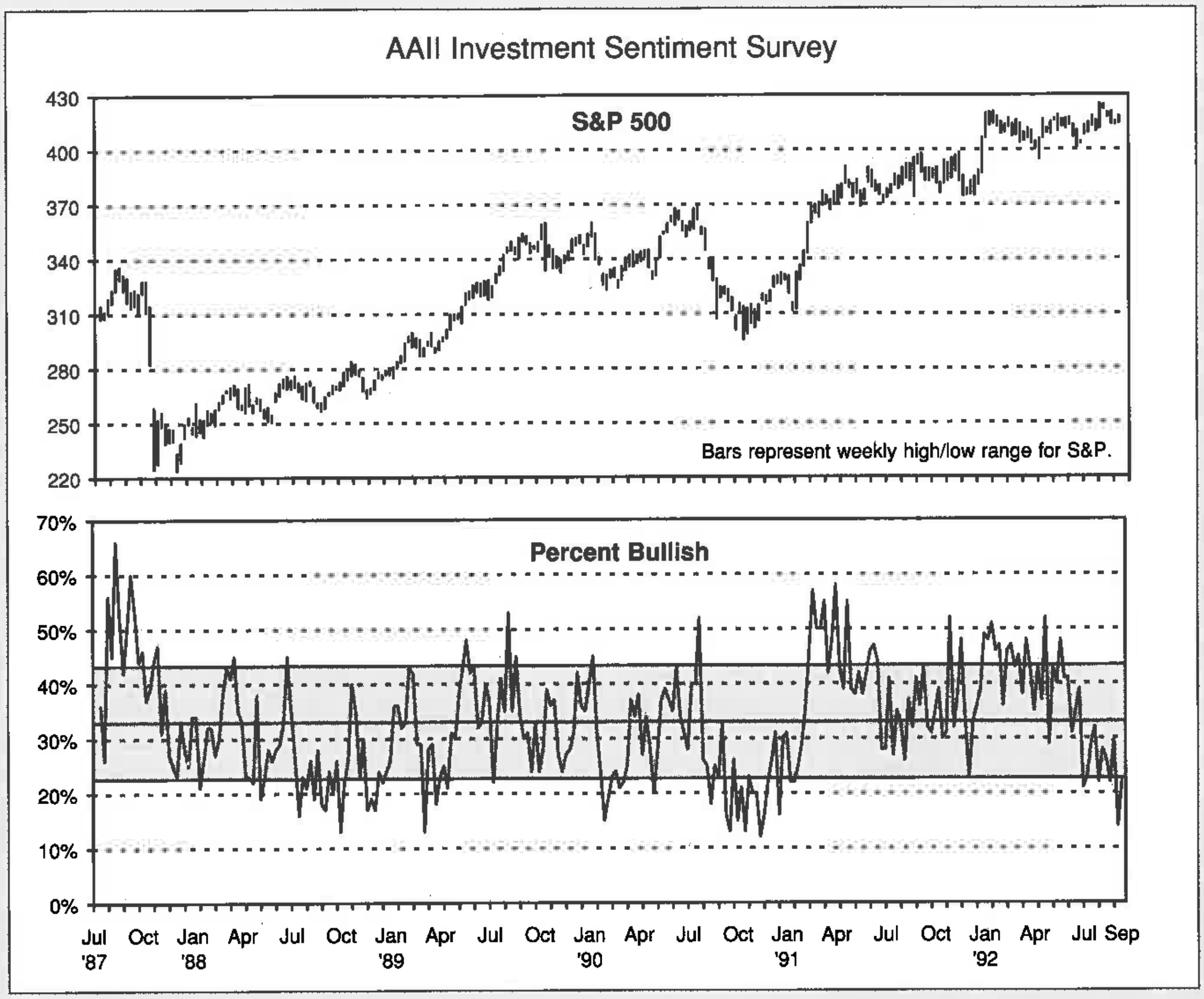
For the adventurous, similar diversification with better yields can be found in stamps, coins, art and antiques—assuming you know how to invest in these collectibles. At a more basic level, 90-day to one-year government securities will provide more diversification and provide a slightly higher yield.

### The Fading Mystique

While the mystique and mystery of gold, and the image of it being the currency of choice in hard times are interesting, the world has changed. It will take some members of the older generation a while to realize it, but gold is becoming no more than a simple commodity.

I can't think of a valid reason to consider it an investment except speculation, as with any commodity.

## Individual Investors Remain Pessimistic in September




According to the AAII Individual Investor Sentiment Survey, 22% of individual investors were bullish on the stock market as of September 11. This compares to 14% bullish one week ago, a 22-month low, and 26% bullish a month ago.

The Sentiment Index measures the percentage of individual investors who are bullish on the stock market short term; individuals are polled from the AAII membership rolls. The S&P 500 index is presented above the indicator to show the relation of sentiment to the stock market.

The shaded area in the sentiment index graph represents the range in which a majority of responses fell during the time period shown, while the horizontal line in the middle represents the average response.