CONSERVATIVE FINANCIAL SOLUTIONS

Let's Talk Gold

Have you ever heard of Tulipmania? It's a fascinating story from history, and a great financial lesson about perceived value vs. intrinsic value.

In seventeenth-century Holland, tulips were incredibly rare and priced only for the upper class. Over the next couple of decades, the price of tulips continued to inflate until "Tulipmania" officially occurred. In the winter of 1636, people were selling silver and even property for this precious flower! In February 1637, a single bulb was valued at 10x a middle class salary. However, in March 1637, buyers started to dry up, and tulips started to fall out of favor with the Dutch. By spring 1637, many merchants went bankrupt as tulip prices plummeted. Tulipmania reminds us of the dangers of investments based on perceived value. With this in mind, I wanted to answer some common questions we receive about gold.

#1: Is gold at record highs? A well-known area jeweler states, "Gold is at record highs!" (I've been advised not to name the business, but in all truth, if they are going to state this on the radio, you probably should shop elsewhere.) Gold is near five year lows.

#2: Why is gold down?
When gold is not moving on a perception of fear, it is dictated by the strength of a currency. With the U.S. dollar at multi-year highs, we would expect gold to be down, which it is. As interest rates move up in a controlled fashion, this will strengthen the dollar, which historically has weakened both gold and silver. As interest rates go up, investors looking for a true safe haven will settle for a U.S. Treasury Note paying 2.5% rather than the uncertainty of gold and silver.

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— *Roger Ford*

#3: Is gold going to collapse? No, but in all honesty, it already has. Gold was approaching $2,000/oz. and silver $40/oz. As I write this article, gold is closer to $1,100/oz. and silver $15/oz.

#4: Does gold protect against hyperinflation? Not really. Historically, hyperinflation leads to black markets where individuals need food, water, and fuel – not gold. Moreover, the average length of these bouts of hyperinflation was only 18 months. Though gold is a good store of inflation, it is a lousy protector for the "End of the World."

#5: Should you buy gold and silver? If gold allows you to sleep at night, and fits into your time horizon and risk profile, then it may make sense. It is possible that gold will rise if the dollar weakens. That being said, know what you are buying. A reasonable commission on bullion is 7% from the spot price. (However, make sure you have the true spot price. The website, silver.com, marks up their spot price!) Now, if you want commemorative coins or bars, you'll pay more. Finally, there are costs if you want to store your metal, whether that's a fireproof-safe or a safety deposit box.

Closing Thoughts: "You should never put [all of] your money into one investment… especially one that's valued by perception." I wrote that in February 2013, and I stick by it still today. Tulips, gold, and silver should never be the majority of a retirement portfolio. That being said, here's the best advice I can give you on gold. Being that we are in the season of celebrating "Sweetest Day," buy your significant other gold jewelry. This will give you peace of mind, and it will bring happiness to your home.

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