

Quarterly Letter

Gold: Speculative Investment Primed To Fall

Investing in gold epitomizes speculation. Gold has no intrinsic value. Essentially, its market price rises on fear--primarily anxiety over inflation and currency devaluation--and falls as the *herd* rushes to sell, and by greed.

In 2010, world gold demand reached the second highest level in ten years, 3.8 million tonnes (mt), from three sectors: jewelry 2.06 mt, investment 1.33 mt, slightly below 2009's record level, and technology 0.4 mt. [The World Gold Council](#) reported that the impressive world performance was due to higher jewelry demand, strong momentum in key Asian markets, and central banks becoming net buyers for the first time in 21 years, removing a significant source of supply to the market.

World Gold Council forecasts "investment demand for gold as a foundation asset in portfolios is likely to remain strong, fuelled by ongoing uncertainty surrounding global economic recovery and fiscal imbalances, as well as fear of impending inflationary pressures and currency tensions."

Gold Has Been A Bad investment

Despite accolades by gold's pundits, this chart, not adjusted for inflation, shows abysmal long term investment performance. If I bought gold in 1980, in 2010, in real terms, I would not recover my investment!



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In contrast, over the same period, this Dow Jones Industrial Average [chart](#) reflecting inflation, dividends, and splits, shows a better picture.



Christians Are Enamored With Gold

Christians seem enamored with this precious metal...this commodity. In the early 1990's I recall vividly, Bob Larson, a Christian with a radio ministry, fund raising aggressively, while pushing gold coins, incessantly. Beyond a possible sales commission, I never understood the link with Christianity, or his ministry. When I spoke with the person to whom he referred his listeners, repeatedly, he told me the virtues of gold: *a hedge against inflation and currency devaluation.*

“Really,” I said. “When all currencies crash, prices soar and folks have nothing but hoarded gold coins and bars, what do they do with them? Convert them to useless currencies? Barter them? No thank you, I prefer to invest in *blue chip*, dividend paying investments.”

That's what I did, and continue to do.

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Gold is popular with many Christians, especially, financial advisors. As Bob Larson did in the 1990's, today, some prominent Christians and Christian ministries directly, and indirectly tout investing in gold coins and bars, or are using their ministries as platforms to market this commodity.

Gold Has No Spiritual Or Religious Value

Check the Bible and you will see gold has no spiritual or religious significance or value--it will be heaven's asphalt! Don't be deluded by Christians, your pastor, Christian ministry leaders, TV evangelists, TV commentators, or others to invest in gold. Most of all, don't borrow to invest, and unwittingly, fund their sales commissions.



Gold Has No Intrinsic Value

Unlike a stock, gold coins, bars, and bullion pay no dividend or interest. Buyers hold the hard stuff, hoping, some praying, the price increases. It seems many forget supply and demand laws apply to gold, too. Certainly, you can invest in a gold mining business directly or indirectly, but that's not a significant investment source, and it is a higher risk than the typical blue chip stock.

If you heeded advice to buy physical gold, when and why will you sell your holdings? How long will you hold it to satisfy inflation fears? Does that fear ever go away? With a blue chip investment, I can calculate its fair value--it has an intrinsic value. To decide this price, I would evaluate projected earnings, management, markets, and so on. Besides, I would choose a dividend-paying stock, and I could reinvest dividends. Not so with gold. If I buy gold, I hope the value rises, and then, I must decide when to sell to realize a capital gain or loss.

Gold is Primed For A Fall

Gold's main demand drivers, jewelry and investments, are mired in uncertainty, fear, greed, none of which is the foundation for sustained price rises. Gold is ripe for a tumbling when people decide to take profits, or when enough people start to fear it will fall. If the past is a reasonable predictor of the future, get ready for the fall.

If you hold gold coins, bars, bullion, what are your investment goals? Do you have an exit strategy? Probably, someone with a vested interest convinced you to buy to protect

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your assets against inflation. You might be in debt, and instead of repaying debt, you borrowed to invest in gold--not a wise decision. Even so, it is not too late to reverse it.

So, what happens when inflation comes? How much inflation is enough to scare you? Will you sell your coins or other physical stuff for the then worthless paper currency? Then what? Meanwhile, you get no dividends or interest while you wait for the value to rise. People who bought in 1980, continue to wait!



The Way Forward

Before buying gold, ensure you have a written goal and plan, you are not in debt, and you understand the motivation of the seller or proposer, who likely might be in a *conflict of interest*. Is she an *investment* or *financial advisor*? Specifically, is she a financial sales person? If not, is she affiliated with the selling company?

Then again, if a Christian ministry you support is carrying an advertising for gold, is this appropriate fundraising? Is there a subliminal message to its faithful supporters? Why not advertise aluminum, copper, platinum, mutual funds, toothpaste? Is this the start or continuation of the *slow burn principle--the ministry's drift from its mission*? Beware, gold advertising by prominent Christians, by Christian ministries that have been trustworthy previously, does not remove realities about gold--it is a speculative investment.

Ask the Lord to guide you to His truth, and away from slick advertising by Christian ministries and others selling gold. Remember, fear is a key driver sustaining gold's price. If you *surrendered* your life to Jesus, not merely repeated a few words as some TV evangelists propose, you are His child, and when you seek first His kingdom, He will supply your needs (Matthew 6:24-34). Six times in this passage He tells His children not to worry about life, among other things.

Empires collapsed. Countries are bankrupt and limp along. Some teeter on, already technically bust. Meanwhile, currencies crumpled, and several are devaluing regularly. However, hoarded gold will not shelter you from these storms and those ahead. Be alert to Jesus, our Messiah, your refuge, strength, shelter, counsellor, and provider. He has promised never to leave you. Trust in Him, not in gold coins and bars!

Michel A. Bell, former business executive, founder and president of Managing God's Money, is author of five books, including The New Managing God's Money-The Basics and Managing God's Time. Before investing, seek independent financial advice.