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FINANCIAL MANAGEMENT



Humankind's Obsession with Gold

From the beginning of modern times, gold has held a special place in human history. Gold is not the sturdiest of metals and its tangible usefulness to humans, say for weapons or manufacturing is close to zero. Perhaps a few simple properties established gold's predominant position in our history – the fact that it never rusts or otherwise disappears over time; that it is soft and malleable and can easily be made into jewelry, or flattened for gilding or other adornment purposes; and that its luster caught our fancy.

Whatever be the case, gold has been an integral part of human history for millennia - as a symbol of wealth, power, and humankind's vanity, of course. Gold is the only metal that has over 400 mentions in the Bible including detailed instructions to Moses on how much gold to use to build the tabernacle. From Midas to Croesus, from Caesar's Rome to Spain's exploitation of the New World, gold has been both the joy of civilization and its scourge, inspiring the most beautiful works of art and the most unspeakable of horrors.

Pindar, the 5th century Greek poet, famously said "Gold is a child of Zeus. Neither moth nor rust devoureth it. But the mind of man is devoured by this supreme possession".

Gold in the Monetary System

Gold coins were first used as exchangeable money around 635 B.C. and because gold was limited in supply, it was seen as having enduring value. As commerce grew, cheaper metals came into use for coinage provoking people to hold on to their gold for its value and as a portable, dependable asset in times of war or exodus.

In modern societies as global trade expanded at a rapid pace, countries switched to paper currency which initially was backed by a quantity of gold bullion held in reserve. In time however, currency was taken off the gold standard and allowed to float free based on a country's economic output. This has created the sense that paper currency has little real value causing "gold bugs" to rant about the worthlessness of the world's currencies.

Limiting a country's entire economic output on a metal hides in the ground is madness and as Warren Buffett has wittily remarked on our strange obsession with gold, "It gets

dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head.”

Yet, gold continues to hold its special place in our psyche. During times of war or uncertainty, gold rises in value. Iraqis fleeing their country thought nothing of leaving their Saddam-faced currency notes behind but made sure they took their gold with them. It is remarkable that this ancient innovation is still an active part of our monetary value system even today.

Gold as an Investment

So why does gold fascinate us so? Is gold the inflation hedge we were taught to believe, or is it a "crisis-hedge" that we flock to in times of uncertainty? According to Kimberley Sterling, President of Resource Consulting Group, “Gold is speculation, gold is adornment, gold is wealth and gold is trouble.” Statistics show that since 1900, gold has returned a grand total of 55% after adjusting for inflation, equating to an average annual return of merely 0.5%.

So gold is really a non-investment. During economic crises, people get afraid, buy gold, and bid prices up to unsustainable speculative levels. History shows, however, that when the crisis passes, gold values plunge.

With gold currently trading at prices far higher than its intrinsic value, gold investors are operating on the “greater fool” theory. The theory states that if you buy gold today, the only way you can hope to make any money is to sell it someone who is a greater fool than you.