

## **Squish the gold bug**

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Looking back at 2010, one the hottest-performing assets of the year was gold. Will 2011 lead to new historical highs for this precious metal? After 10 years of increasing value and a record price of more than \$1,400 per ounce, the only way to make money in gold now is to hope prices continue to set new records.

Comparing gold to stocks or bonds is like comparing apples to oranges. Gold is based on speculation; stocks and bonds are investment vehicles. I define the difference based on intrinsic versus perceived value. The intrinsic value of stocks and bonds stems from the fact that both entitle owners to a share of profits or interest payments. Gold, while certainly pretty to look at, pays nothing. Making a profit with gold relies on the Greater Fool Theory which suggests the only way to make money is by selling to a "greater fool" who is willing to pay more than you did.

As a standalone asset, gold does not provide any economic benefit to the holder beyond what can be captured with future price increases. True investments have an inherent economic benefit based on the goods or services created by the use of the money from the sale of stock or bonds.

One argument in support of gold is to use it as a hedge against inflation or uncertainty. Unlike the 1970s there are better alternatives available today, such as inflation-protected bonds, to protect individual investors against the risk of unexpected inflation. While gold prices tend to correlate with inflation over long periods of time, its volatility is dramatic, which can make even the most risk-tolerant investors squeamish. Furthermore, the long-term risk and return characteristics of gold are not attractive compared with other types of investments.

In regard to uncertainty about the future, I don't believe there is any single asset that provides sufficient protection. However, a diversified portfolio structured to address a variety of potential outcomes increases the likelihood of success. When addressing economic uncertainty, it's also important to look at assets outside of your financial portfolio, such as your career and the long-term contribution to your financial well-being it represents.

While I cannot minimize the economic challenges we face, which have arguably led to the surging price of gold, I also will not ignore ingenuity and resourcefulness that has overcome many other obstacles in the past. Besides, how much protection can allocating 5-10 percent of your portfolio to gold really provide if the doom-sayers are correct? If you fear the collapse of society, spend your money on freeze-dried food and ammunition - not a shiny lump of metal.

The cure for being bitten by the gold bug is investing in companies that will meet these challenges by producing goods and services to serve society now and in the future. Gold may be easy on the eye, but as an investor, you may want to admire it from a distance.

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