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Stocks provide better returns than gold in the long run, economist says

By SAMANTHA HENRY, The Daily Transcript
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Gold reached its highest since Dec. 10 on Monday, but gains were quickly followed by losses. Gold hit $1,265.35 an ounce Monday and fell to $1,244.26 on Tuesday, according to Bloomberg. Gold dropped 28 percent in 2013, the most since 1981, and hit its lowest since August 2010 at about $1,180 an ounce.

Reed Bermingham, a financial adviser, said the recent gains and losses can both be attributed to fear. “Fear, essentially. Fear of inflation, fear of a devalued dollar, fear of a crumbling economy and a permanent poor economic condition," Bermingham said in an email. "Whatever the future may hold, these things have not yet materialized, which is at the same time what has led to recent declines."

People buy gold because they are afraid of inflation and paper money, said Dan Seiver, chief economist at **Reilly Financial Advisors** and finance professor at San Diego State University.

“Sometimes when fears are great enough and inflation is high enough, gold does really great,” Seiver said.

Its price can’t be justified by its use in the industry or anywhere else, and when fears reduce the price can plummet, Seiver said. He added that it can be argued that gold could be part of a portfolio for diversification, but he doesn’t find it particularly attractive at its current price.

“Looking at the long run, stocks provide better total returns than gold,” Seiver said.

Gold peaked in September 2011 at about $1,900 an ounce. Seiver said it has been “relatively sick” for the last couple of years, while the stock market is “soaring” and real estate is coming back. He said it’s periodically a “lousy investment” and can be lousy for a decade or more.

“The appeal has been the idea that something exists that can protect you if everything else goes down,” Bermingham said. In recent years, he said there has been “considerable fear” of inflation, devalued currency and rising interest rates -- which has given way to appreciation in gold as people looked for that protection.

Those interested in gold as an asset should pay attention to actual GDP, inflation, interest rates, unemployment, debt and corporate earnings, Bermingham said, adding that past performance doesn’t guarantee future results.

“In my opinion, one of the greatest risks with something like gold is that its value is solely pegged to somebody else’s demand,” Bermingham said. “In those terms, gold should be viewed as more of a speculation, not an investment because it does not have the underlying fundamentals of typical investments (revenues, profits, dividends, growth, etc.).

“Its value is solely constructed through supply and demand. It does not pay you interest, it does not report revenues, and it does not answer to shareholders or a board of directors. Essentially, the gold market is really a number of different people speculating what they believe the cost should be, and trading in accordance with the values they deem appropriate. This can be dangerous when leverage comes into play, people turn their back on the story, and there are no fundamentals to rely on when the tide goes out. This is what we’ve seen transpire over the past year.”