

Brad Brain: Are precious metals still precious?

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Smart Money

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Brad Brain: "Precious metals, especially gold, have a reputation for being a hedge against inflation. This reputation, however, is difficult to support." Photo By GETTY IMAGES



Recently someone asked me what I think of precious metals. My answer? I am just not a fan.

There are a few reasons why someone might be interested in precious metals. Some of the reasons are more legitimate than others. But usually when people ask me about precious metals the reason behind the question tends to be on the fringe.

Some applications where precious metals have legitimate utility are for jewelry and for industrial use. But the reality is that people who want to buy gold to make a beautiful necklace, or buy silver to manufacture electronic products, are not the people that this article is intended for.

A different reason why someone might consider precious metals is as part of their investment portfolio. I will grudgingly accept that there is some evidence that holding precious metals as part of a professionally managed investment portfolio can add an element of diversification. It's not a strategy that resonates with me, but to each their own.

But these are not the reasons why people ask me about precious metals. Invariably, when people ask me about precious metals, they have only one of two things on their mind. The first is precious metals as a hedge against inflation. The second is precious metals as a fall back plan in case of a systemic economic collapse.

In my opinion, both are terrible reasons, based on virtually evidence-free premises. Certainly, inflation is a silent assassin for retirement income. Even at today's modest levels of inflation, prices are rising over time.

If your investment portfolio is not keeping pace with inflation, you are losing your purchasing power.

Precious metals, especially gold, have a reputation for being a hedge against inflation. This reputation, however, is difficult to support. Gold has had a surge lately, and there is a tendency to take recent results and extrapolate them. But the reality is that gold has a 200-year history of abysmal long-term returns, briefly punctuated by a frenzied interest, only to eventually return to the mean. Don't confuse short-term volatility with long-term performance.

This point that needs to be made very clear. Without question, there are people that will passionately argue for the role of gold. But the evidence is not in doubt. The long-term performance numbers for gold bullion are terrible.

Even more common than an as inflation hedge, however, are inquiries about whether precious metals would be advantageous in the event of a total economic meltdown. It's a theory that has fervent supporters, but passionate belief without evidence is dogma, not economics.

The reality is that gold and other precious metals are no longer an accepted means of exchange, and they have not been for some time. I can prove this very easily. Take a hunk of gold down to the grocery store and try to buy a chicken. We just don't do that anymore.

If there was a total economic meltdown, why would people care about gold anyway? I am not a cryptocurrency fan either, but the crypto folks say virtually the same things as the gold bugs. They also claim that crypto will be a safe haven in the event of an economic collapse and massive currency devaluation. In other words, even if there was a systemic failure, what assurance is there that gold would be worth anything at all, never mind become the default store of wealth?

Here is what it comes down to for me. Gold does not earn interest. It does not pay dividends. It has a lousy record of price appreciation. All it does is sit there. Even worse, you usually will incur some expense to store it, so it can actually cost you money to own.

So, yeah, not a fan.

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