Brett Arends's ROI

Opinion: Why gold has utterly failed as a ‘safe haven’

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The arguments to stock up on bullion in tough times are mostly bogus

Can everyone please stop calling gold a “safe haven” every time the stock market tanks and bullion goes up a few percent?

It’s been happening again lately. Last week gold jumped by $80 an ounce as stocks swooned, and the usual “safe haven” claims were wheeled out yet again. Matt Drudge of the Drudge Report, who certainly knows his readers, even splashed with a panic-buying-of-bullion story. (It came from London’s Daily Telegraph, which certainly knows what stories might attract Matt Drudge.)

Yes, gold is up 17% since Jan. 1. It’s a great performance, so long as you don’t look at the long-term picture.

There are a few genuine arguments for gold as a financial asset, including its value for privacy and money laundering, and its historically low correlation with other assets. But “safe haven” it isn’t — no matter how often people repeat the canard.

The further the gold standard recedes into history, the less power it has for those still investing.

• Gold was “de-monetized” in 1973, when the United States government formally abandoned the gold standard. (Though Switzerland retained a version of a gold standard until 2000.) So any arguments for gold as a “safe haven” that depend on data from before 1973 are based on a flawed premise.

• I’ve run the numbers using data from FactSet, and if you’ve bought gold bullion at any time since it began trading freely in 1975, you’ve lost money over the following 12 months about 45% of the time. That’s right: Nearly half the time, gold has fallen in price year-on-year.

• If you’ve held on for longer, it hasn’t helped much, either. Gold has lost value 41% of the time over three years, and even 34% of the time for five years. Someone buying gold and hanging on for five years has lost money a third of time. And that’s in purely nominal terms — before counting inflation.

• Gold lost 23% of its value during the 1980s, even in nominal terms, before counting inflation.

• Gold lost 29% of its value during the 1990s, also before inflation.

How Much Gold Should You Own?

• The further the gold standard recedes into history, the less power it has for those still investing. Investors who began their careers under the U.S. gold standard are in their 60s now — or older.

• Gold has “worked” less and less as crisis insurance as time has gone on. It wasn’t that great to begin with, either. In the stock market crash of 1987, it rose all of 5%. In the financial crisis of 1998, it rose 2% — after first falling. And in the financial crisis of 2008, it failed completely as any kind of safe haven, falling as much as 30% as desperate investors dumped everything, including bullion, to raise cash.

• Gold won’t be a “safe haven” if the entire economy collapses either, as it has no use. If you think we’re heading for End Times, The End of the World as We Know It or the Zombie

Apocalypse, try stockpiling things like condoms and painkillers — things people will really need.

• Silver never recovered as a “safe haven” and “long-term store of value” after the U.S. government dropped it as official money in 1873. Since then, silver has lost more than a third of its purchasing power, meaning not only has it failed to generate the kind of positive return you’d expect from things like stocks, real estate or even Treasury bills, but it’s actually cost you money to own it. Before insurance and storage.

• Gold’s long early history as “currency,” dating back thousands of years, is certainly interesting but it’s irrelevant financially. It predates the rise of modern nation states, law, banks and communications. The conditions that drove merchants to buy and sell with gold back then no longer exist.

• Gold cannot be valued by traditional measures because it generates no cash flow. So there is no way of knowing if you are overpaying or not. Which makes it very unsafe.

• The main appeal of a “safe haven” is that it doesn’t depend on anyone else. But the main drivers of the gold price seem to be retail demand, both here — through exchange traded funds such as the SPDR Gold Trust GLD, 0.05% — and in emerging markets. And that, too, means it is more likely to be volatile than “safe.”

I have no view on gold’s current valuation. Nor even on what it’s going to do next. But the arguments that it is a “safe haven” just don’t stack up.