Macro Market Insights

BORDER GOLD CORP.
Dealer In Precious Metals

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Art, Land, or Gold

The chief executive of the world's largest asset management corporation made comments this week that suggested gold was passé. He said gone are the days where gold acts as the de facto store of wealth. Instead, those with excess cash flow are looking to acquire condominiums in international cities or are making a bid for contemporary art; however, gold is being viewed as nothing more than a relic of the past.

Blackrock's CEO, Larry Fink might be regarded as one of the most sought after minds in international finance. And for a man that preaches a long term view that suggests all investors remain fully invested in the stock market, as that is the asset class that boasts positive returns over the long run, he is taking a rather myopic view on gold.

The rationale for owning precious metals like gold is simple when looking to acquire and retain wealth. Governments can confiscate land. Art is subject to fashion trends or current fads. But the allure of gold is something that has been time tested throughout history. It may go in or out of favor in the near term, and of course caries the characterization and negative stigmatization for those over focused on the asset known as "gold bugs," but its relationship holds as a long term store of value, and a natural hedge to the world's reserve currency.

The uptrend in the US dollar is only something that looks set to continue. To close the week the Wall Street Journal published an article that examined a world burdened with oversupply. Whether its commodity markets, laborers, or capital, there is no natural shortage in any of the aforementioned markets acting as a driver of demand. An oversupply in commodity markets is prompting selling pressure for the globe's energy and mineral rich export countries. Youth and millennials despite advanced education struggle to make gains in competitive labour markets. And savers are essentially punished for being adverse to risk and thus are forced to accept a rate of return less than inflation.

Naturally this would create an environment where gold as a store of wealth struggles. Obviously gold is no longer the front-page asset that is garnering the excitement of investors because we are not in an environment where a level of overall risk requires increased diversification for alternative asset classes. Alternatively, the malaise of other financial markets has prompted investors (since 2009) to look elsewhere for returns and hence fears arise of bubbles in real estate and there are questionable valuations for modern art.

To digress, the luxuries of private versus public ownership in investment decisions are not made dependent on results in the next fiscal year or quarter. They are decisions that are based on the long term with only a limited number of shareholders to answer to. The same can be said for gold. Larry Fink may be right that overall market demand may be waning for the yellow metal as prices sits rather dormant. The point he is missing, or failing to comprehend is that gold has been around longer than the skyscrapers of Manhattan or the most recent piece of modern art.

To repeat: land is subject to taxes and confiscation. Modern art goes out of style. Gold is time tested and has remained coveted throughout history.