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Why it's Okay to still be Bullish on Gold: The Difference between Short and Long term

Given the fact that the asset class of precious metals, and more generally commodities became the easiest pick for investors over the latest decade, we really shouldn't be that perplexed with the idea of how quickly it has now been shunned by the masses. As the price of gold continues in a downtrend, the widely popular SPDR Gold Trust ETF is seeing its lowest levels since 2009. But since the final surge in the price of gold was driven by a herd mentality amongst investors to protect against a stimulus program so complex it was difficult to comprehend, it's reasonable an asset class associated with fear and uncertainty became a safe harbour of capital. More recently though, what believers of gold and other precious metals learned is the price can go down as quickly as we saw it go up, and that's not to acknowledge that gold was in a bubble, or by some analysts' definition has entered a bear market, but perhaps instead, a short period of consolidation.

It's not just because of my bias from being in the industry that I believe this Bull Run in gold is far from over. If the chart above illustrates anything, it's that this market over the last ten years still looks rather healthy. Instead, there are some very distinct reasons why for the long term we can still be bullish on gold despite the noise we see here in the short term, and they are as follows:

- Outlook is for record low federal funds rate (interest rates) into 2016
- Taper of Quantitative Easing does not equate to tighter policy
- Global recovery still remains fragile as the fiscal health governments is no better off than before the crises

The outlook for interest rates along with the fact that any upward manoeuvre in policy rates still remains the upmost threat to economic growth is what has fuelled demand for real assets over the last few years. Furthermore, record low rates have fuelled a consumption binge in the world's developed economies that now sees the general population saddled with record debt levels. And it's simple; in order to reign in household imbalances individuals must either save more and consume less, or grow their incomes at a faster rate than their debt. The premise now that we live in a global economy with sub-par 2 percent economic growth is what will constrain individuals and force policy makers to keep rates low for the foreseeable future.

And it's the Federal Reserve and other central banks that offer the guidance of low rates that will continue to stimulate the economy. We are beginning to learn, and soon accept that the unconventional methods of quantitative easing have run their course. And given the improvement in the US labour market is far less than the US central banks hopes for at this point in the recovery, it's even more evident this pending policy shift speaks more to the efficacy of its efforts than its arguably somewhat satisfactory achievements.

But finally, and this is the one point surrounding gold that almost everyone seems to have forgotten as of late, and that is the debt burdens of government that seemed to be of paramount focus during and before the great recession are no longer relevant. Paradoxically, they are actually worse than when we entered this crisis five years ago. Despite the efforts of massive stimulus programs from just about every western power, the worlds developed economies actually haven't returned to full strength, and are even more burdened as a result of the stimulus.

And that quite simply is what kick-started gold's run back in the beginning of this century. It wasn't quantitative easing. And for over two years between July of 2004 and November of 2006 interest rates actually went up. But a mix of the aforementioned factors paired with the ineffectiveness of government that opts to devalue their currency in order to attempt to stimulate growth is what will eventually turn around this downturn in gold, and fortunately for some investors has created the buying opportunity of the decade.

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