Gold Ore What?

The Truth about Gold and Silver

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In times of uncertainties, people have purchased gold and/or silver as a hedge against inflation. The reasoning for this is the belief that as a commodity, when the value of the dollar drops, the value of the gold would increase against the falling dollar. Other commodities like food, would remain relatively constant compared to gold.

This was true 100 years ago as well as 50 years ago, and according to the endless commercials telling you why you should 'invest in gold', it is still true today. However, in today's world, does it really make sense to do what granddad did?

Looking at this situation logically, we first have to clear up the gold sellers contentions, gold is not an investment, and it is not a true hedge against loss either. If it is true that the value of gold reflects the true value of commodities, the things that we buy and use everyday, then all it could do would be to protect against loss as there would be no way for the value of gold to increase over the increase in the cost of living. This means that the work that you did 25 years ago would still buy the same amount of groceries today as it did 25 years ago if the pay for that work was paid in gold.

Here is what the gold sellers don't tell you. When you buy gold, you pay the ask price, that is the price the gold sellers ask for their gold, but when you want to sell your gold back to them, they will quote you the price they are willing to pay for your gold. Guess what? There is a pretty big gap between the ask and the quote prices. If the ask price is the real value of gold, and it is the real value because that is what you were willing to pay for it, then when you accept the quoted value for your gold, the real value has diminished when compared to the other commodities, but according to the tax man you made a profit. The difference in dollars received for the gold minus the dollar paid, is taxable. During inflation that dollar profit, even if it is really a value loss, is called capital gains, and in the US at least is taxed at 15%.

An investment isn't an investment if it always loses value. Even when investors get all excited and begin paying more for gold and silver than it is really worth compared to other commodities, that is not investing, that is gambling. Once everyone realizes that the price for gold is too high compared to other commodities, they quit buying it and the price falls.

An investment is only an investment when the value of the investment increases above its original cost plus inflation. The element of time has a value and when you loan someone money, you get the principle back plus interest based on some quantity of time. Gold and silver not only doesn't make you a real profit, but mostly loses value because of the spread and taxes.

Today, we are not limited to the same old limitations that our grandparents had. Today, we can use other hedges which not only distributes our risk effectively but are more liquid than gold. Also there is no guarantee that the local grocer would accept your silver in payment for his groceries anyway.

With the help of the internet, anyone can open a bank or broker account in just about any currency in the world. If the value of the dollar is slipping, it is changing value against other currencies. If you buy some currencies from different countries, you can change the other countries currency in to your home currency for a lot less than selling gold. The spread between the ask price that you can buy the Canadian or Australian Dollars for and the quoted price that you can sell them for is about 5 cents per $100.

The values of one currency compared to another changes all the time. In fact, foreign exchange (forex) traders make a pretty good living off of the movement in the value of one currency compared to another. This makes currencies a good hedging technique by diversification, but also a good investment tool should you decide to trade the forex as well.

There is one other benefit to holding a bank account in some other currency. If something happens to your home country and you have to flee to safety, it will be an added burden to have to lug that gold or silver around with you. But if you have an account off shore then you can have that currency wired to you at your new location.

You can open bank and broker accounts in your home country funded in other currencies, but for an added level of safety, open your account off shore because, whatever it was that had effected your home currency to make it do so poorly, may have other effects on local banks as well. The best hedge against the unknown, is now and always has been, diversification.

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