



July 2007

Fools Gold

If 50 million people say a foolish thing, it is still a foolish thing. Anatole France

I remember as a kid I used to stare at a word for so long that the word seemed to lose its meaning. It just became a jumble of letters, not representing anything meaningful. I feel the same way about gold.

People continue to be fascinated by this metal, not only for its uses in jewelry, dentistry and electronics, but also for its “store of value”. In 1971 Richard Nixon took this country off the gold standard established in the early 1900’s. Until that time our dollar’s value was pegged using the price of an ounce of gold. For some time that number had been \$35, meaning that you could buy an ounce of gold for \$35, or redeem an ounce of gold for 35 greenbacks. The problem with the system is that although the dollar remained stable versus the metal, prices did not. This system set up tremendous monetary shocks as the Federal Reserve was not free to alter the flow of money into the system - to slow down an over heated expansion, or stoke and economy out of the doldrums. It also set up a system of fixed exchange rates between countries on the gold standard that did little to reflect the underlying economic health of any one country.

Like it or hate it, the reality is that we have been off the gold standard for over 35 years. What gets me scratching my head is that some still cling to this metal as if it had magical powers. The gold bugs will tell you that gold is the asset to hold in periods of instability and high inflation, and are quick to point out that gold has risen from about \$410 in January of 2004 to its current price of around \$660, or approximately 14.5% annualized return over that time. Of course they leave out the part about gold’s previous peak was \$850 in 1980 (\$2275 in today’s dollars). For the guy who bought the metal back in 1980 as a “store of value”, he has received no dividends, interest or any other distributions for that matter, and has seen over 60% of his purchasing power vanish. Since 1973, the Wilshire 5000 (the 5000 most actively traded US stocks) beat gold 72 times over.

And here’s the part that really bends my noodle. These same people will drone on about how risky stocks and bonds are and that the only real currency is gold. Really. It is true that gold is a tangible asset, and stocks and bonds are pieces of paper representing claims on real assets; but that is the whole point. They represent ownership in working assets. These companies churn out products or services and are paid for their efforts. This payment is returned to the successful ones in the form of profits. These profits are reinvested in new capital or paid out to the owners/lenders of the company.

If you really have no faith in the overall financial system I ask these folks, why not own Real Estate or oil/gas reserves as these have real intrinsic value (you can plant a house on one, and use the other to heat it). It’s usually about this time that I hear the tale about the four Jewish families that control the world’s banking system and most of it’s military (about now I check to see if they are wearing any tin foil as protection against CIA radio waves, and start looking for the nearest exit). The problem I’m left with is this; if a financial doomsday scenario does come to pass (as many of gold’s proponents portend) what exactly am I to do with the metal? I can’t eat it, wear it, sleep under it, or get around in it. I guess I’m just not fool enough to want to own it either.

P.S. I’m pleased to announce that on July 1st, I became the sole shareholder of Access. Marge, Alex, Kris and I look forward to continuing the personal service that is the hallmark of our organization. Also, you may want to check my email address in your computer (there are a few old ones floating around out there). It should be: wcasey@accessinvestmentadvisors.com

Providing independent financial stewardship to individuals, their families and their enterprises™