'I'm Bullish' On Gold, Fed In A Hurry To Raise Rates - Jim Grant

See video: http://www.kitco.com/news/video/show/Kitco-News/1029/2015-07-23/Im-Bullish-On-Gold-Fed-In-A-Hurry-To-Raise-Rates---Jim-Grant

John Chew: The very piling on and monetization of debt is what is driving down the price of gold. Crazy? The Greece panic was bearish for gold because the bad assets are bought by the ECB through creation of money/bank reserves. The taxpayers are on the hook. Debt just grows. No worries, the problem grows but is further pushed to the future. This continues until a change of risk preferences. Taken to an absurdity, then why work or produce since governments can just issue debt and create money to pay for the new debt.

Can this continue?

Jul 23, 2015

Don't tell Jim Grant, the publisher of Grant's Interest Rate Observer, that gold is a hedge. The author and publisher said the metal is much more dynamic; providing a trifecta of price, value and sentiment, and investors should have exposure to it. **"Gold is an investment in monetary and financial disorder – not a hedge.** You look around the world and you see exchange rates are properly disorderly, when you look around the world of lending and borrowing -- we are in a regime of price control by another name, so-called zero percent rates and quantitative easing by the world central banks – we are in one of the most radical periods of monetary experimentation in the annals of money," Grant told Kitco News Thursday.

Grant added that it could be **that it all works out, albeit a very "low probability." "You want to have exposure to the reciprocal asset of the paper assets that are the most popular - so gold, to me, is now the conjunction of price, value and sentiment, and I am very bullish indeed."** *(I think Grant has been bullish gold since 1999).* Gold prices are on track for its longest run of losses since 1996. After reaching five-year lows this week, the metal was relatively quieter on Thursday with prices slightly rebounding on some bargain hunting in the spot market. Kitco's spot gold was last up $0.60 at $1094.60 an ounce. Grant summed up the gold selloff as **"Mr. Market having a sale,"** and added that the downward spiral is "terrifically vexing but a wonderful opportunity." He explained that no one knows the bottom for the metal and that should not be the sole focus.

"The important thing to recall is why those of us who own it, bought it. What is it about gold that ought to make it appealing – when it seems to be absolutely the thing you don't want to have." He added that gold thrives in the face of monetary turmoil, disorder and uncertainty, noting, "I think we have all three of these things." Grant said he likes owning physical gold particularly South African Kruggerands. **He added he is also the owner of "too many gold mining shares" for which he has, "a great deal of worry for the present but a great deal of conviction for the future."** Mining stocks have suffered even more since lower gold prices means less revenue per ounce of the metal for producers.

The Market Vectors Gold Miners exchange-traded fund (GDX), which consists of stocks of gold-mining companies, was down $1.70, or 11%, to $13.72 on Thursday. On the topic of U.S. Federal Reserve rate hikes, Grant said the central bank is in a hurry to raise rates. "The Fed feels it must act just for institutional pride; but, money supply growth is dwindling, the turnover rate of money likewise, the only thing that is dynamic in the world of money and credit is the issuance of more and more dubiously sourced debt, and more and more lenient terms," Grant said. **"What debt does is two things: it pushes forward consumption and pushes back evidence of business failure," he added.** Kitco News, July 23, 2015. (show less)

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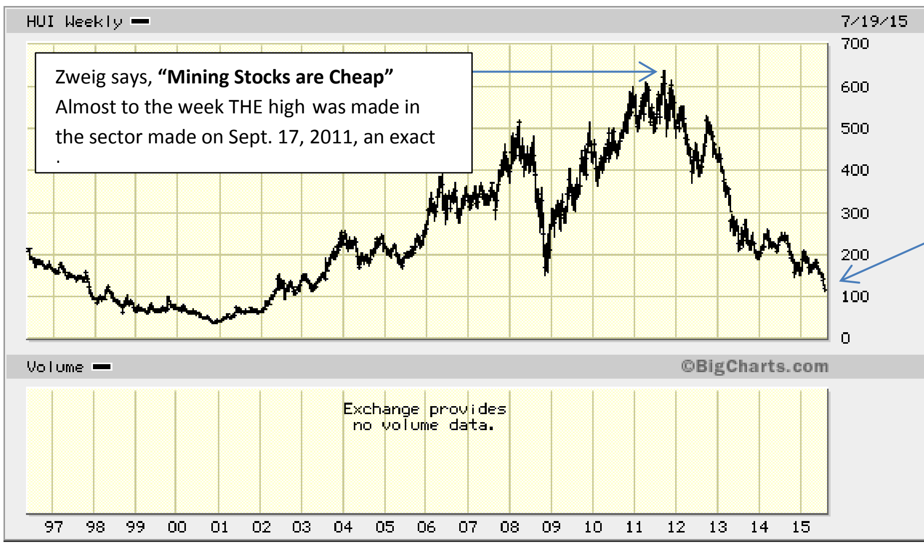
Is Gold Cheap? Who Knows? But Gold-Mining Stocks Are

By Jason Zweig **September 17, 2011**



Zweig on July 17 2015, **Gold is a pet rock.**

Growing numbers of investing experts have been declaring that gold is a bubble: an insanely overvalued asset whose price is bound to burst.

There is no basis for that opinion. And understanding why can help point an investor toward clearer thinking about frenzied markets.

Even as gold has shot up past $1,800, gold-mining stocks have gone basically nowhere. And as Jason Zweig explains on The News Hub, unless gold goes way down, mining stocks look pretty cheap.

Sure, gold seems expensive. At its recent price of $1,813 an ounce, gold is off only slightly from the record high of $1,912 touched on Sept. 6 (unadjusted for inflation). Gold is up more than 40% over the past year, largely on fears that paper currencies like the dollar won't retain their value.

But that doesn't mean it is overvalued. Unlike bonds, which provide interest income, and stocks, which produce dividends and earnings growth, gold generates no cash flows. As John C. Bogle, founder of the Vanguard funds, told me two weeks ago, gold "has no internal rate of return." As a result, there isn't any reliable way to tell what it is worth.

So the people who say gold is in a bubble might well be right. But the people who think gold is heading for $2,500, $5,000 or $10,000 also might be right.

Folks on both sides would be more intellectually honest if they admitted that they are just guessing what gold is worth. With no measures like price/earnings ratios or bond yields as benchmarks of value, figuring out whether the precious metal is cheap or dear is like trying to solve a Rubik's cube while you are blindfolded.

Decades ago, the great investing analyst Benjamin Graham pointed out that there is no such thing as a "good" stock; every company is good at one price (when it is cheap) and bad at a higher price (when it is too expensive). But try asking a gold bug at what price he would sell, and you are likely to get an answer somewhere between $6,000 and "never." Ask a gold skeptic at what price he would buy, and you be met with silence, followed by "never" or a quavering "$900, maybe?"

Precisely because I don't know how to determine its fundamental value and have never been able to identify anyone else who can, I haven't written about gold for years.

But there is one aspect of gold investing where it is possible to make rational estimates of value: the stocks of gold-mining companies. And, by historical standards, they seem cheap—based not on subjective forecasts of continuing fiscal apocalypse, but on objective measures of stock-market valuation.

Christophe Vorlet

"We haven't seen [low] valuations like these since 2008," says Joe Foster, gold strategist at Van Eck Global. But financially, gold miners have "never been in better shape." Van Eck's Market Vectors Gold Miners exchange-traded fund holds 30 mining stocks.

Several big gold-mining companies—among them, Barrick Gold and Newmont Mining —are trading around **14 times their earnings over the past four quarters**, virtually matching the Standard & Poor's 500-stock index at 14.5 times earnings. Even with gold at record highs, the shares of gold miners are trading at an industrywide average of roughly 18 times earnings, at 2.4 times "book" or asset value (versus 2.0 times for the overall stock market) and at one of the lowest ratios on record to the price of the metal itself.

Yet mining companies have rarely if ever been more profitable, and should be able to generate high returns so long as gold stays above $1,500 or $1,600, points out John Hathaway, manager of the Tocqueville Gold Fund.

Gold stocks aren't a low-risk play; like the metal itself, they can burn you, especially if you expect to get rich quick. And gold mining has been the classic boom-bust industry, with managements squandering money on acquisitions and bad investments during the fat years and retrenching during the lean years.

"The industry has done terrible, asinine things," says John Tumazos, an independent metals analyst in Holmdel, N.J. "I own 23 or 24 gold stocks, and I probably have a loss position in half of them even with gold at $1,800," he adds. "One of them I bought when gold was at $300." Smaller gold companies can be particularly risky.

Still, Mr. Tumazos and others say a new generation of management in the gold industry is less tarnished, and that rising dividends are likely. As Caesar Bryan, manager of the Gamco Gold Fund, puts it, "We think they will be returning capital to investors instead of taking it from investors, which is what they've historically been good at."

Of course, if gold goes back to $900, these stocks will go right down with it. But if the precious metal holds steady or keeps going up in price, gold shares could pan out, too.

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Let's Be Honest About Gold: It's a Pet Rock **JASON ZWEIG**

Christophe Vorlet

Gold is supposed to be a haven amid hard times and soft money. **So why, even as Greece has defaulted, the euro has sunk against the dollar, and the Chinese stock market has stumbled, has gold been sitting there like a pet rock?**

The Intelligent Investor
By Jason Zweig
COMMENTARY

Trading this week below $1,150 an ounce, the yellow metal has fallen more than 39% since it peaked at nearly $1,900 in August 2011. Since June 2014, investors have yanked $3 billion out of funds investing in precious metals, estimates Morningstar, the financial-research firm; total assets at precious-metal funds have shrunk 20% in 12 months.

“A lot of investors have become disillusioned with gold,” says Suki Cooper, head of metals research at Barclays in New York. “Safe-haven demand hasn’t been strong enough to lift prices, but has only been strong enough to keep them from falling.”

Many people may have bought gold for the wrong reasons: because of its glittering 18.7% average annual return between 2002 and 2011, because of its purportedly magical inflation-fighting properties, because it is supposed to shine in the darkest of days. But gold’s long-term returns are muted, it isn’t a panacea for inflation, and it does well in response to unexpected crises—but not long-simmering troubles like the Greek situation. And you will put lightning in a bottle before you figure out what gold is really worth.

With greenhorns in gold starting to figure all this out, the price has gotten tarnished. It is time to call owning gold what it is: **an act of faith.** As the Epistle to the Hebrews defined it forevermore, “Faith is the substance of things hoped for, the evidence of things not seen.” Own gold if you feel you must, but admit honestly that you are relying on hope and imagination.

Recognize, too, that gold bugs—the people who believe in owning the yellow metal no matter what—often resemble the subjects of a laboratory experiment on the psychology of cognitive dissonance.

When you are in the grip of cognitive dissonance, anything that could be regarded as evidence that you might be wrong becomes proof that you must be right. If, for instance, massive money-printing by central banks hasn’t ignited apocalyptic inflation, that doesn’t mean it won’t. That means it is more likely than ever to happen—someday.

You don't want to be one of these people, spending years telling reality that it is wrong. There is a case to be made for owning gold, but it speaks in a whisper, not in the shouts of doomsday so customary among gold bugs.

Because gold, unlike stocks, bonds, real estate and other financial assets, generates no income, valuing it is all but impossible. "It's intrinsically worthless or intrinsically priceless," says Paul Brodsky, a former hedge-fund manager who now is a strategist at Macro Allocation, an investment-research and consulting firm in New York. "You can build a financial model to value it, but every input is going to be your imagination."

Gold is two things, neither of which is easy to price: a commodity and a currency.

First, the commodity: At recent prices, mining companies are losing money on more than an eighth of the gold they dig out of the ground, says Ms. Cooper of Barclays. That could lead to a decline in supply. And if demand—even from noninvestment buyers like consumers in China or India—rises unexpectedly, there might not be enough gold to go around.

William Rhind, chief executive of World Gold Trust Services, sponsor of SPDR Gold Shares, an exchange-traded fund with $26 billion in assets, also foresees what he calls "a continuing shift in demand from West to East, and from investors to consumers."

Those factors, Ms. Cooper says, suggest that gold is unlikely to slide much lower and could eventually go quite a bit higher.

When? How much? Who knows?

As a currency, gold has a latent and indeterminate value, Mr. Brodsky says. If the world goes to financial hell in a handbasket, you wouldn't lug gold ingots to the supermarket so you could stock up on canned goods. But you might pay for those goods with dollars that are again backed with gold, as they were until 1971.

The metal is "cumbersome and archaic and barbaric," Mr. Brodsky says, "but it remains a store of value, and gold might be called upon again to be the basis for money, as a real backing of currency." Basing the value of their money on something scarce, rather than the unrestricted right to run the printing press, would enable central banks to strengthen their currency, he says. It also would create a significant new source of demand for gold—if, that is, it ever happens.

Gold is often viewed as a hedge against inflation, and it has outpaced rises in the cost of living—but not as robustly as the alternatives.

Since 1975, the beginning of the period in which private ownership of gold has again been legal in the U.S., the metal has returned an average of 0.8% annually after inflation, compared with 5% for bonds, 8.3% for stocks and even 1.1% for cash, according to Christophe Spaenjers, a finance professor at HEC Paris business school. "It can be very difficult to rationalize the price movements of gold, even with the benefit of considerable hindsight," he says.

So, if buying gold is an act of faith, how much money should you put on the line?

Laurens Swinkels, a senior researcher at Norges Bank Investment Management in Oslo, reckons that the total market value of the world's financial assets at the end of 2014 was about $102.7 trillion. The World Gold Council estimates that the world's total quantity of gold held for investment was about $1.4 trillion as of late 2014. So, if you held the same proportion of gold as the world's investors as a whole, you would allocate 1.3% of your investment portfolio to it.

Anything much above that is more than an act of faith; it is a leap in the dark. Not even gold's glitter can change that.

*— Write to Jason Zweig at **intelligentinvestor@wsj.com**, and follow him on Twitter at **@jasonzweigwsj**.*

These are the first two headlines on Market Watch this morning:

[An open letter to investors who are bullish on gold]

The letter says to sell gold.

and then there is this one:

[Goldman sees gold below $1,000]

The Goldman analyst says:

“We think we are in a structural bear market, not only in gold, but across the commodity complex, as the individual commodity stories are reinforcing to one another, creating a negative feedback loop,”