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Gold subject to market forces like any other asset class

Investment: Recent price plunge shows 'experts' regularly off target

BY BARRY O'NEILL

We have just seen the most dramatic two-day fall in the spot price of gold since 1983.

The precious metal, regarded by many as the ultimate safe-haven investment, has now fallen by more than a quarter from its high of $1,920 an ounce in September 2011 to just above $1,400 an ounce.

Forecasts from the start of the year, including one from a metals strategist at Bank of America Merrill Lynch, spoke of gold moving onwards and upwards through the $2,000 mark within six months, and even to $2,400 an ounce by the end of 2014.

The consensus forecast for 2013, according to Bloomberg, is $1,813 an ounce.

So how could the so-called experts be so wide of the mark with their forecasts? Not only have they been vastly over-optimistic about the spot price this year, but they have even failed to predict the direction of travel.

The answer is simple – gold is an asset class like any other. Asset classes are subject to the forces of supply and demand, as well as market sentiment.

Gold has been on a decade-long bull run. The latter part of this has been fuelled by the quantitative easing (QE) programmes employed by the world's central banks. Expansionist monetary policy is supportive of gold as investors flock to assets that are perceived to offer protection against inflation.

Recent noises from the US Federal Reserve about the end of QE and concerns that some weaker European countries might emulate Cyprus, which is believed to be considering selling some of its gold reserves to pay off its debts, have unsettled gold investors.

No asset class can defy gravity forever.

The dramatic fall in the value of a supposedly safe-haven investment supports the assertion that trying to time your entry into or out of any investment market is fraught with danger.

DULLED: The price of gold has fallen by more than a quarter since its $1,920 high

Investors generally flock to assets that are rising in price, often buying near the top and run for the hills from assets that have become cheaper, often selling near the bottom of the market.

Repeating this process on a regular basis is a sure-fire method of wealth destruction.

Provided you are investing in an asset class for the right reasons as part of a diversified portfolio, having done due diligence to ensure the long-term fundamentals are sound, don't follow the lemmings to the cliff edge when times are tough.

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