



WhyGold

©2012 mourtaza asadSyed

This version was published on 2012-06-24



This is a Leanpub book, for sale at:

<http://leanpub.com/WhyGold>

Leanpub helps authors to self-publish in-progress ebooks. We call this idea Lean Publishing. To learn more about Lean Publishing, go to: <http://leanpub.com/manifesto>

To learn more about Leanpub, go to: <http://leanpub.com>

Tweet This Book!

Please help mourtaza asadSyed by spreading the word about this book on Twitter!

The suggested hashtag for this book is #WhyGold.

Find out what other people are saying about the book by clicking on this link to search for this hashtag on Twitter:

<https://twitter.com/search/#WhyGold>

Contents

Foreword	1
BOOK'S Table OF CONTENTS	4
Introduction	5

Foreword

Writing a book on gold in 2011 feel like writing “Dow 36000!” ten years ago! Of course, recent market moves provided a strong motive to look in detail “the barbaric relic” and to present the analysis to a large audience. But, in fact, the genesis of this treatise traces back to a discussion in 2009 between an Indian-born economic geologist and a Swiss-based investment strategist. Simply put, a gathering of a father and his son. We took a special pleasure in building this piece, and we hope you will enjoy it as much. This book is a living experience that interest in gold transcends ages and geographies.

The love for gold has been universal –except for economists! It has appealed to human being irrespective of its origin, color, race and sex. Even in the Bible, and other Holy writings, adoration of gold is mentioned, forbidding it, though. The “pious” reader should take no offense, as we have left out any controversial moral issues, we have just presented facts and mechanisms. No “justification” for the use or the value of gold is argued; the study rather gives an understanding as to how gold works in the society and its price is set, even if it often generates “irrational behavior”. Indeed, “irrational behavior” is often denounced by economists, who tend to see gold as being useless and unproductive, creating no value, generating no income and even being simply “barbaric’! We believe there is much more to see in gold, which might in fact, be one of the very last rationally priced financial assets, as we will show in this book.

This volume is structured in four distinct parts. The first part is mostly descriptive about the characteristics of gold. Gold is defined and described here from multiple angles: metallic, mineralogical, geologic, historic, social, economic and financial ones, enumerating its conventional and modern day uses. The numerous facets of gold help understand its place in society through time and geography with some amazing facts.

The second part explains the dynamics of gold prices. Thorough analysis shows that gold prices are set on three separate markets simultaneously: the commodity market, the currency market, and the financial assets market, indeed its value is also defined as an asset relative to main asset classes. It concludes that the currency market matters the most, because gold is first and foremost a mean of exchange and a store of value.

The third part is pragmatic, focusing on investment strategies around the metal. It presents practical cases of successful investing, depending on investment horizons and styles, and provides simple frameworks for trading, tactical, relative value and asset allocation approaches.

The last part presents conclusions on the future evolution of gold, by applying the frameworks for price dynamics and investments. In short, we still have a favorable ground for the gold bull market, given current global economic conditions, where slow-to-moderate growth is largely supported by active public policies, generating large public deficits and easy monetary policies... But, beware trees do not grow to the skies!

The authors sincerely hope that amateur geologists,

journalists, economists, analysts, traders/ portfolio managers, and men and women fancying gold, all of them should find their subject of interest in different parts of this work. To close this introduction, we wish to share our preferred definition of gold: *A ounce of which provides an insurance to acquire a year of subsistence for a man, anywhere, anytime.*

A ounce of which provides a perpetual and universal insurance to acquire a year of subsistence for a man.

BOOK'S Table OF CONTENTS

THE CASE FOR GOLD 1

Foreword 1

Introduction 3

Part I - Definitions & overview 5

Part II - Valuing gold 44

Part III - Investing in gold 77

Part IV - Outlook for gold prices 87

Concluding Thoughts 93

Introduction

Known since 6000 BCE, gold has captivated human imagination for its value, firstly due to its bright yellow shine, then due to its scarcity, divisibility, indestructibility, and its** **unique physico-chemical properties. Of all the metals mined from the Earth, none is more cherished than gold. Its usefulness in various forms is derived from a diversity of special properties. Gold conducts electricity, does not tarnish, nor gets altered or dissolved easily, is very easy to work, can be drawn into wire, and hammered into thin sheets. It alloys with many other metals, and can be melted and cast into highly detailed shapes, has an attractive color and a brilliant luster. It occupies a special place in the human psyche, and holds a prominent place in society.

Gold has specially attracted and seduced the women-folk, fond of jewelry and gems, for its glitter, shine, and luster, to adorn her fingers, wrists, forearms, earlobes, neck, hair locks and tresses, even waist, ankles, nose and toes. The human fascination and love affair with gold continue unabated over the last eight millennia. The monarchs and sovereigns wore gilded and golden crowns and sat on gem- and gold- studded thrones.

It has been used as a medium of exchange, over the ages, and as currency and as a stored value. It has Also been serving as a backing for the fiat currency in circulation.

Despite John Maynard Keynes’_s Fatwa _of ‘Barbaric relic’ on gold, this has remained a popular bet for investment Investors hold gold as a hedge or safe haven against

any economic, political, social, or fiat currency crises, including investment market declines, burgeoning national debt, currency failure, devaluation, inflation, war, and social and political unrest. In modern times when people lose faith in their government, and banks, they look for gold for its convertibility and universal acceptance.

Thus, gold has retained a refuge value, and the long term prospects for the metal, though a small market, seem to be assured as a safe bet against financial adversities, making it an attractive holding. Its main handicap is, however, the absence of returns. Indeed, gold value is about opportunity cost and perspectives for the future. Right now, with easy monetary policy and hesitant growth, we see that gold price has bright perspectives to remain at elevated prices.

However, except for rare gold coins, bullion market should be carefully monitored before purchasing and unloading the metal.