

 <p>American Century Investments[®] Focused on performance</p>	<h2>EQUITY INCOME</h2> <h3>A FUND FOR ALL SEASONS</h3>	<p>Roll Over for Equity Income Fund Facts and Performance</p>
--	--	--

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.

WSJ.com

ROI | MAY 27, 2010

Why I Don't Trust Gold

By BRETT ARENDS



This is a very sad day for me.

In [Part One of this series](#), when I argued that gold might be about to go vertical, I made a whole bunch of new friends among the gold bugs.

And now I'm going to lose them all.

That's because even though I think gold might be about to take off, I don't recommend you rush out and put all your money into gold bars or exchange-traded funds that hold bullion.

And this is for one simple reason: At some levels, gold, as an investment, is absolutely ridiculous.

Warren Buffett put it well. "Gold gets dug out of the ground in Africa, or someplace," he said. "Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

And that's not the half of it.

Gold is volatile. It's hard to value. It generates no income.

Yes, it's a "hard asset," but so are lots of other things—like land, bags of rice, even bottled water.

It's a currency "substitute," but it's useless. In prison, at least, they use cigarettes: If all else fails, they can smoke them. Imagine a bunch of health nuts in a nonsmoking "facility" still trying to settle their debts with cigarettes. That's gold. It doesn't make sense.

As for being a "store of value," anyone who bought gold in the late 1970s and held on lost nearly all their purchasing power over the next 20 years.

I get worried when I see people plunging heavily into gold at \$1,200 an ounce. What if the price goes back to where it was just a few years ago, at \$500 or \$600 an ounce? Will you buy more? Sell?

My concerns about gold go even further than that.

Let's step inside the gold market for a moment.

Everyone knows the price has risen about fivefold in the past decade. But this is not due to some mystical truth or magical act of levitation. It is simply because there have been more buyers than sellers.

Banal, but true—and sometimes worth repeating.

If the price rises you'd think there must be a shortage. But data provided by the World Gold Council, an industry body, tell a remarkable story.

Over that period the world has produced—or, more accurately, recovered—far more gold than anyone actually wanted to use. Since 2002, for example, total demand for gold from goldsmiths and jewelers, and dentists, and general industry, has come to about 22,500 tonnes.

But during the same period, more than 29,000 tonnes has come on to the market.

The surplus alone is enough to produce about 220 million one-ounce gold American Buffalo coins. That's in eight years.

Most of the new supply has come from mine production. Some, though a dwindling amount, has come from central banks. And a growing amount has come from recycling—old jewelry and the like being melted down for scrap. (This is a perennial issue with gold. I never understand why the fans think gold's incredible durability—it doesn't waste or corrode—is bullish for the market. It's bearish.) So if supply has consistently exceeded user demand, how come the price of gold has still been rising?

In a word, hoarding.

Gold investors, or hoarders, have made up all the difference. They are the *only* reason total "demand" has exceeded supply.

Lots of people have been buying gold in the hope it would rise. But the only way it can rise is if still more people buy it, hoping it will rise still further. And so on.

What do we call an investment scheme where current members' returns depend entirely on new money brought in by new members?

A Ponzi scheme.

Yes, as I wrote earlier, gold may well be the next big bubble. And that may mean there is big money to be made in speculation.

But I don't trust it as an investment.

How can you square this golden circle? I'll tell you in Part Three.

This is the second part of a three-part series on gold, "The Gold, the Bad and the Ugly." Next up: The way to play gold.

Write to Brett Arends at brett.arends@wsj.com

Copyright 2009 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com

Personal Finance How-To Guides

1/9

Investing

Credit

Insurance

Buying A Home

Retirement

Saving

What Is a Bond?

How to Buy a Stock

What Is a Mutual Fund?

How to Invest in a Certificate of Deposit

Evaluating a Stock

How to Buy a Mutual Fund

More Guides: [Small Business](#) | [Wine](#) | [Finance](#) | [Health](#)