BUSINESS FINANCE

Debunking the Myth of Gold as the Ideal Inflation Hedge in 2022

By **Josh Turnrow** October 12, 2022

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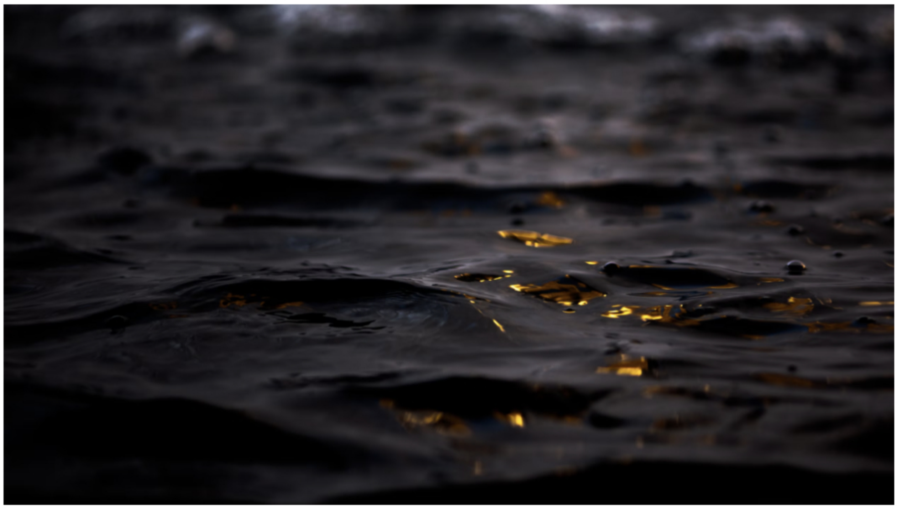

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Gold has long been regarded as one of the most effective investments for protecting one's wealth from various possible adverse financial effects. A plummeting stock market and an increase in inflation are two examples of these hazards. Currently, inflation is at extremely high levels, yet gold prices have not been doing particularly well. In terms of the US dollar, it has decreased by over 10% so far this year, which contradicts the overarching perception of gold as an inflation hedge.

Uncovering the Appeal of Gold as a Traditional Inflation Hedge

To reduce their risk exposure, traders and investors in the financial markets often use a strategy known as hedging. In most cases, this is accomplished by creating an opposite position in the market to compensate for any loss that may have been made in their primary position. Hedging may be thought of in a straightforward manner by comparing it to purchasing an insurance policy. When we speak about hedging against inflation, we are referring to the process of preserving your capital from the depreciating effects of inflation. Therefore, to hedge against inflation, investors want assets that are unaffected by growing inflation.

Gold has always been seen as a hedge against inflation throughout time. As a result, it is the asset of choice for investors who want to ensure that their money will continue to have the same buying power in the future while minimising the amount of risk they are exposed to. When there is an uptick in inflation that is being kept under control, central banks will not necessarily vote to raise their key interest rates automatically. This indicates that the real interest rates, calculated by subtracting the nominal interest rate from the inflation rate, will be negative for assets such as government bonds.

When interest rates are at historically low levels, gold's ability to shift in the opposite way of real interest rates makes it an efficient hedge against inflation. Because of this, investors can protect the value of their funds from experiencing a significant decline.

Source: GoldPrice.org

In March 2022, as a direct consequence of the conflict between Ukraine and Russia, the price of gold reached an all-time high of more than $2,000 per ounce. Although inflation has reached record highs, gold prices have been falling for the last few months.

As interest rates continue to climb, some investors are considering selling gold, which does not pay interest, to purchase assets that do pay interest. Temptations come in the form of greater returns, which are now accessible in bonds, property, or even shares of stock. Other temptations come in the form of higher interest rates on cash.

Gold's position in comparison to other asset classes, such as stocks, currencies, and bonds, has recently

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seen significant shifts due to these developments. All asset classes function independently of one another for various reasons, including changes in how the economy operates, modifications to monetary and fiscal policy, and many other factors. Because each of these asset classes experiences a different price action dependent on a variety of factors, including supply and demand, the prevailing interest rate regime, inflation, gross domestic product, and other factors, investors should view each of these asset classes as having equal importance.

Nowadays, the reputation of gold as a trustworthy hedge against inflation is in jeopardy as investors go to other parts of the market in which they might seek refuge from increasing costs.

Why Isn't Gold Performing Better?

Some analysts consider that Gold is a good method to protect oneself against inflation before it occurs. The situation, however, changes drastically whenever there is significant price inflation. Assuming that the Fed is successful in bringing inflation under control. Once inflation has reached a high level, it is essentially too late to "hedge" against the inflation that Gold prices often suffer. When the dollar is stronger as well. The price of bullion is expressed in terms of the US dollar, and a strong dollar has the effect of dampening excitement.

"Gold seems to protect purchasing power over a long period — say, 100-plus years — but provides very little protection against inflation in the short term," according to Kevin Lum, a CFP and founder of Foundry Financial.

ABOUT RON BAUER – THESEUS CAPITAL – www.thescapital.com

Ron Bauer is a venture capitalist, entrepreneur, business mentor and author, with over 20 years of experience. He is focused on the Life Sciences, Technology, EdTech and Natural Resources sectors, where he has created several exciting ventures side by side with some of the world's leading entrepreneurs and scientists as well as world class academic institutions. Ron holds a Master of Business Administration (MBA) degree from the University of Cambridge.

Ron was the Co-Founder of Turkana Energy, which merged with Africa Oil in 2009. The company went on to have a peak market value of over $3 Billion Canadian, having raised more than $1 Billion of equity after Tullow successfully drilled Turkana's oil concession. Ron is a principal investor in many biotech, tech and natural resources companies.

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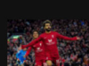
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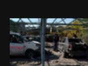
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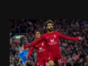
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