Harry's Take

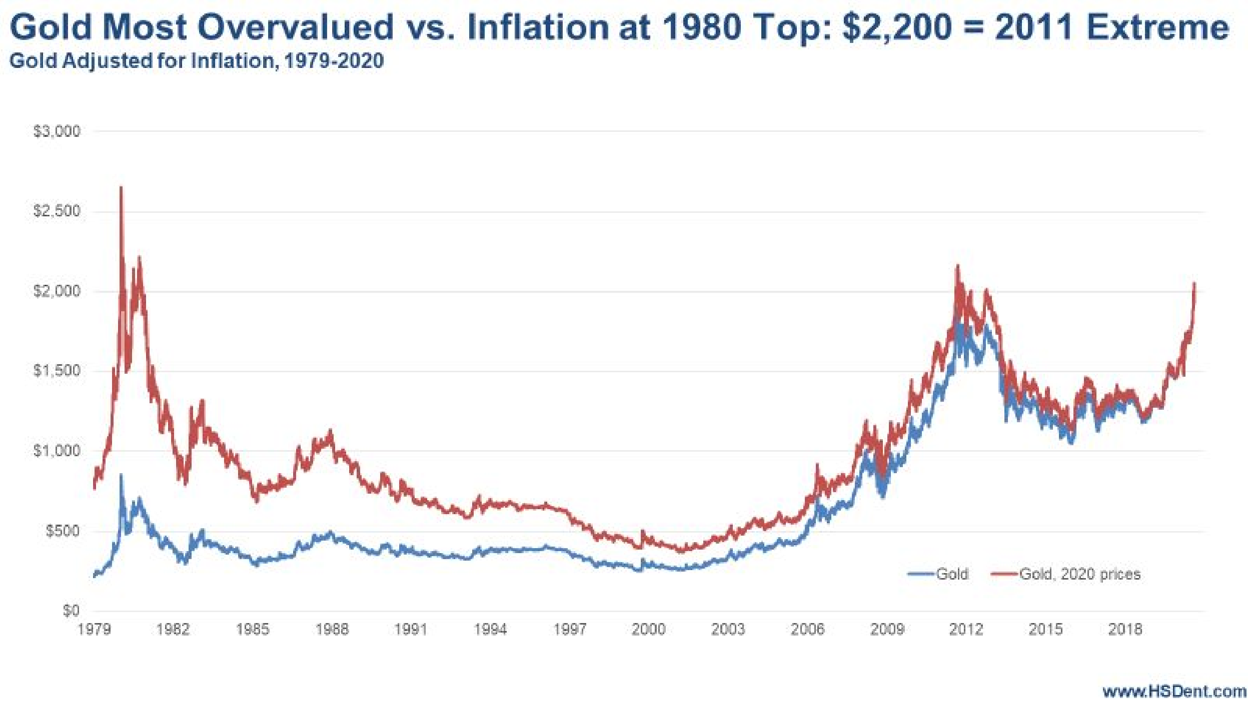
August 25, 2020

Gold Is Way Overvalued, by Every Fundamental Measure—Just Not as Much as Stocks

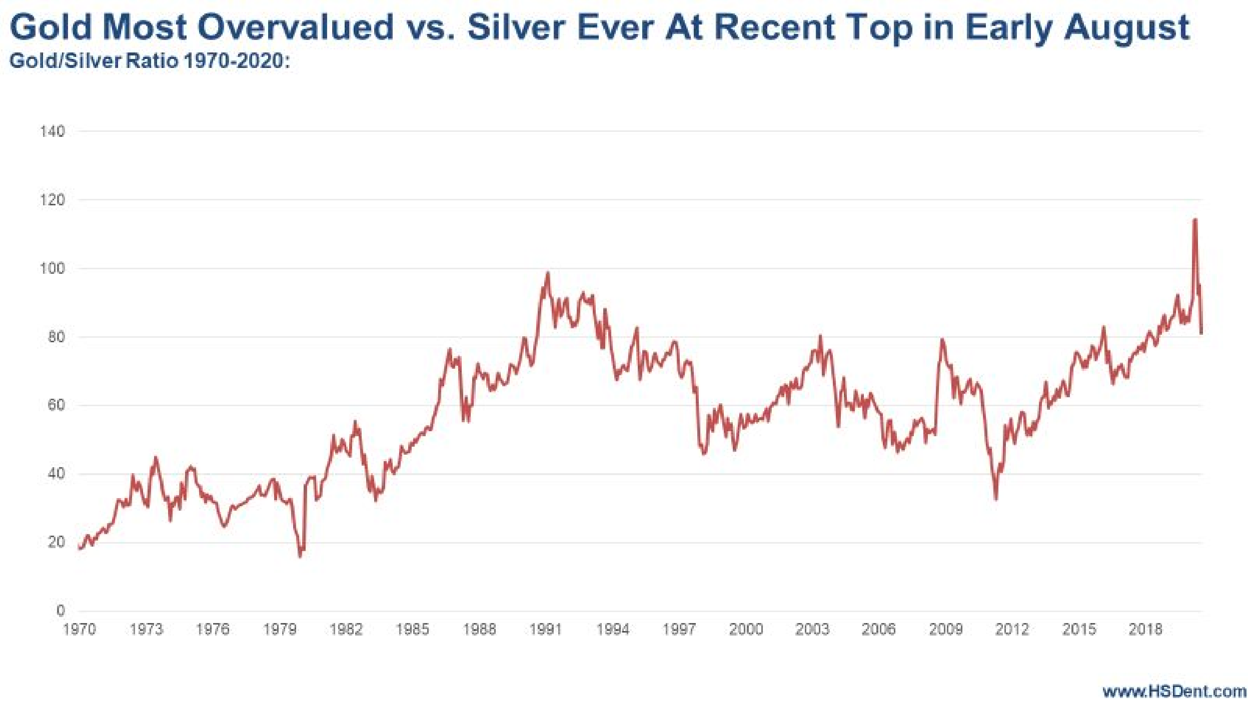
If you want to speculate in gold now that it has broken above its 2011 all-time high… good luck!

I'm going to let three simple charts do the talking today.

Gold most correlates with inflation longer term—yes, back to the 1700s and likely even before. The chart below shows that gold was the most overvalued on this measure at its 1980 top, when real inflation was at its highest level in modern history, at $2,650 in today's dollars. But if gold reaches a value of $2,200, as is likely just ahead, it will be at its second-highest level since its 2011 top. The inflation into 1980 was extreme and real. This time it is anticipated… and will continue *not* to manifest.



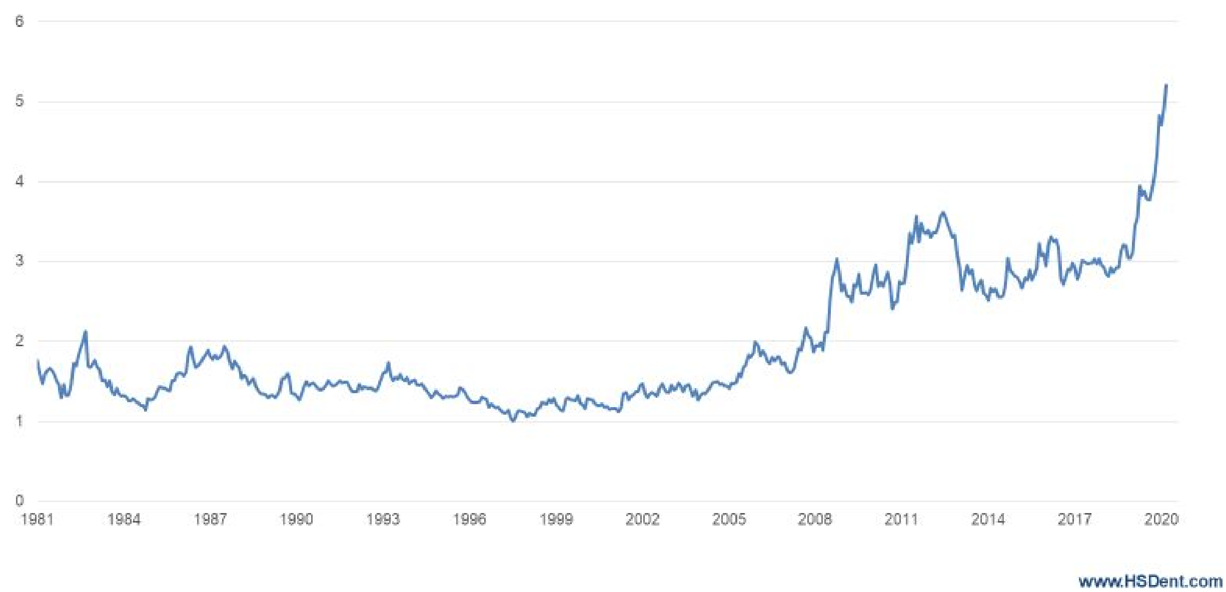
Silver is the next-most precious monetary metal. At its recent high, gold was the most overvalued vs. silver than it possibly ever has been, at 116 times. A normal level here is for gold to be worth around 60 times more than silver; it dropped to around 80 when silver had its recent catch-up rally, which is likely to be nearly over.



Gold's clearest cycle over time is the 30-Year Commodity Cycle. At the recent top, gold was the most overvalued it has been since 1970, and even more likely ever, versus the Commodity Research Bureau (CRB) Index.

Gold Most Overvalued By Far vs. Commodities at Recent Top

Gold/CRB Ratio 1981-2020:



My conclusion is: Gold now is the most overvalued it has been in modern history, as a result of an artificially stimulated rally that comes only from printing money. Gold buyers keep anticipating high inflation or hyperinflation to come from this, but it will not occur, as we are in a deflationary Winter season, which started in 2008 and will last until around 2023. Thus, gold is unlikely to be a good hedge against deflation. Instead, we're about to see the worst of the deleveraging of debt and financial asset bubbles over the next 2+ years—and gold will be a part of that.

Here's the only caveat: Stocks were 120% overvalued into the February top by my best long-term indicator, with an 85%+ downside. Gold's downside is more like 50%.

Monthly subscribers, look for an update of upside near-term targets and downside longer-term targets for gold just ahead.

Harry

Got a question or comment? You can reach us at info@hsdent.com.