

## Gold by David Goldman

### Statistics and pessimism

*A review of a useful investment guide which points up the unavailability of data on supply and demand.*

Among a variety of similar investment handbooks, *Precious Metals Digest* contains the most detailed assembly of data, most of which draws on Bureau of Mines and other publicly available sources. Its detailed report on South African mining stocks was provided by a Johannesburg financial commentator.

Although the detailed supply and demand data for gold does not match the annual commentary available gratis from Consolidated Gold Fields of South Africa, some investors will nonetheless wish to have a survey of all major metals subject to investment demand in a single volume.

The editors' approach is summarized as follows:

"In these most modern of times, the ownership of gold and silver mining shares, coin and bullion has, on many occasions, provided safety of capital and opportunity for extraordinary capital gains.

"While man's progression has become more sophisticated over the past 5,000 years, indeed, even more so in the past 50 years, the evidence of history unfailingly points to gold and silver as the best defense against the economic nature of man and his related calamities, such as inflation, recession, depression, devaluation, shortages, and war."

The editors are, clearly, "hard money men" who have taken the trouble to collect all the data that seemed relevant to them and publish it in usable form.

But of what use is this data to the

individuals who wish to make money by investing in precious or other metals?

The volume's biggest problem is no fault of the editors, who take "statistics, forecasts, and market information . . . from government sources, which are believed to be accurate and reliable, but recognized as not infallible."

In the case of gold (but not of most other metals) their belief is wrong. There exist no accurate data whatever on the supply and demand for gold.

To the extent that net new mining production may be estimated, major gaps include Soviet output, which is a secret well hidden by the Soviets' trading partners in the West, as well as Third World gold production, e.g., Brazil's. Considering that several hundred tons flowed out of Third World central bank hoards last year, it is probable that all the standard estimates for net supply (official sales plus new production) undershoot the real figure by about 60 percent.

The editors note: "Some of the events that could increase the supply of gold to the market may include . . . the sale of reserve assets by some countries to satisfy pressing international debts," without noting that such sales had already been occurring at the volume's deadline.

Since industrial demand, jewelry demand, and dental demand for gold are fairly simple to estimate, the additional gold demand through 1983 apparently reflects monetary demand, on the part of investors as well as of-

ficial institutions (such as the Japanese central bank). The editors of *Precious Metals Digest* restrict their discussion of the monetary issues to a short mention of the President's Gold Commission in 1982, which came to no important conclusions, and to reiteration of the widely held belief that more inflation is a favorable factor for the gold price.

If monetary demand for gold is much larger than the usual statistics would indicate, then the gold price is a political issue *par excellence*, and the medium-term behavior of the price (at least) must reflect the political expectations and designs of leading market participants, not the least of which are the Soviet Union and the large European fortunes, as well as the various central banks who are active on the international gold market incognito.

Despite the wealth of detail, the volume does not provide the reader with the appropriate conceptual basis—hard facts being unavailable—to judge whether one should buy gold or not.

At the end, the investor is encouraged to put his money behind a variety of philosophical pessimism, i.e., the belief that the worst will, in any case, prevail. Such attitudes cost many gold investors large amounts of money during 1980 and 1981.

It is easy to justify such pessimism under present circumstances, but that does not suffice to provide an effective guide to the market.

*Precious Metals Digest*, which is published by Malden House in Seattle, nonetheless provides an informative survey of different investment vehicles, various mining technologies and how they may affect different gold-mining companies, and other data which are useful for expanding the background of any participant in the gold market.