Why Gold Has Stagnated …

and What Investors Can Expect Next

By Doug Casey

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International Man: Doug, you've been a strong proponent of gold for many years—specifically physical gold as a savings vehicle.

How do you view physical gold today?

Doug Casey: I continue to view gold mainly as a vehicle for savings. It's money in its most basic form. Banks and governments fail, paper currency has always been a joke, and the forthcoming Central Bank Digital Currencies (CBDCs) are criminally dangerous, possibly the worst innovation of all time. Anyone who doesn't have a significant part of his assets in gold coins will be an unhappy camper.

But, first of all, gold is not an investment. An investment is an allocation of capital that produces new wealth. That's not the nature of gold or any commodity.

Occasionally, gold can also be an excellent speculation. Since it was disconnected from the dollar in 1971, it's had some spectacular runs. But it's primarily a vehicle for savings. I've been buying it since it was about $40 an ounce. I've just accumulated more and never liquidated. It's treated me quite well, having run from $40 to, at the moment, $1,650.

It's a good speculation during monetary and economic crises. That's because it's the only financial asset that's not simultaneously somebody else's liability. You don't have to trust in the goodwill of your rulers. Indeed, it allows you to automatically profit from the fact that they're usually incompetent and dishonest.

In a world that's head over heels in debt, where governments and central banks are bankrupt and printing up their national currencies by the trillion, owning gold is more important than ever.

International Man: If physical gold is for prudence, gold mining stocks are for speculative profits.

What is your take on gold mining stocks as an asset class?

Doug Casey: I've been involved in gold stocks for 50 years, and they've been very good to me. I'm still heavily involved in gold stocks, but for very different reasons than gold. Unlike gold itself, they're volatile and risky. I've often said that mining is a crappy business.

Why would I say that?

Because first of all, of the roughly 2,000 publicly traded so-called gold mining stocks in the world, very few are actual gold producers, and relatively few actually have any proven economic gold in the ground. Most are exploration companies. It's not prudent to either buy lottery tickets or own shares of companies going on what amounts to Easter egg hunts, which is what most exploration companies do.

Of course, sometimes they get lucky. Or have a really competent geological team. Then these stocks can go 10 to 1 or 100 to 1, or even 1,000 to 1. I've actually owned two stocks that have gone 1,000 to 1, which makes up for a lot of mistakes. I still speculate in exploration stocks, although I concentrate mostly on developers, producers, and royalty companies. As with most things, the more you know, the more you realize how little you actually know and the more cautious you become.

As a business, gold mining is terrible. You have to spend millions of dollars searching for a viable asset, and it's usually a futile search. If you do find a worthwhile prospect (after significant expenditures on things like mapping, testing for gravity and magnetic anomalies, soil sampling, trenching, legal requirements, and much more), you're looking at seven figures, minimum. Chances are overwhelming you'll come up empty. But if things look viable, then it's going to cost you scores of millions of dollars and X number of years to develop and prove up the asset with lots of drill holes. Then, on the off chance, it still looks good, your troubles really start. Building the mine will cost you scores or hundreds of millions or billions of dollars more. At which point, you have a fixed asset that can't be moved and is subject to taxes, royalties, fees, and shakedowns by NGOs, native groups, and now ESG busybodies. In addition to all the significant risks of mining itself.

No wonder Warren Buffet has never owned a mining stock.

It's not like it was in the 19th century when, if you found a gold mine, it was like… finding a gold mine. Today, gold mines are typically marginal and risky businesses with huge upfront capital costs.

So, why would I want to own gold mining stocks?

It's because they're perhaps the most volatile class of securities on the planet, at least as volatile as tech or internet stocks. Volatility can be your friend if you know what you're doing. We live in a period of serious monetary chaos. It will almost force you to speculate if you are going to survive. I expect that in the near future, a huge bubble will develop in commodity stocks in general and gold stocks in particular as a result of the monetary chaos that's developing.

Gold stocks are a teeny-weeny section of the market. They're best described not as small caps, not as micro caps, not even as nano caps. Many are pico caps. So when they run, they really run. I expect it will be like trying to squeeze the contents of Hoover Dam through a garden hose when the next bull market in gold gets going.

But these stocks are not heirlooms. At some point, because of the nature of the mining business, I'm looking to sell them all and put the proceeds into solid, productive companies.

When will that be?

I've joked for many years that the key will be when *Slime* or *Newspeak* magazines if they still exist, show a cover with a golden bear tearing apart the New York Stock Exchange. From my point of view, that'll be the bell ringing to switch from gold stocks to industrial growth stocks.

Until then, I expect to stay long resource stocks in general and gold mining stocks in particular.

International Man: With central banks engaging in appalling currency debasement and prices soaring, it would seem to be the ideal time for gold to shine. However, that is so far not the case.

What is your take on how the price of gold has performed recently?

Doug Casey: With all markets in general, and commodity markets in particular, prices can go higher than you can imagine and then lower than you can imagine.

That said, gold has been an excellent place to be over the last 50 years. I expect that will continue to be the case for at least the next decade. Gold has sold off from its last peak, close to $2,000, during the recent Covid hysteria. It's $1,650 as we speak. In the current economic environment, it's a rock of stability compared to tech stocks, with many popular issues off 30-70% or bonds, which are still in hyperbubble territory. Gold is serving its purpose.

But why has it been weak recently?

The world is completely awash in debt. And right now, central banks are raising interest rates in what I think will be a futile effort to stifle the effects of their printing money. Of course, they could accidentally set off a deflationary credit collapse as well. The world is on the edge of an economic precipice. The Fed has been by far the most aggressive in this regard. So the world is buying dollars. Most of the world's debt is in dollars. These relatively high-interest rates, although they are still very negative in real terms, are putting borrowers under a lot of pressure. My guess is interest rates are going a lot higher, almost regardless of what these fools do.

Debtors are scrambling for dollars to service their debts, while savers want dollars to capture their higher rates. That accounts for the strength of the dollar. It's a bit of a paradox. The dollar is losing value against real wealth at 10% to 20% per year; that's the rate of currency debasement. But still, the dollar has been immensely strong against all other currencies because the world needs dollars to service its dollar debts. A huge distortion is being created.

That's why gold has shown some weakness. But it doesn't bother me because I expect that within the next few years, gold will be re-monetized.

Why? The dollar is no longer trusted and will cease to be the world's currency. Already the Russians have been frozen out of the dollar system. Nobody trusts the dollar system because they realize that the US government could punish them arbitrarily. Only a fool wants to use his enemy's currency or banks. That, and everyone realizes the US Government is bankrupt; it's like Wiley Coyote in the cartoon, walking on air after he runs off a cliff.

At the moment, the Russians, the Chinese, the Indians, the Iranians, and the Saudis are all acting like friends, but they don't trust each other. They certainly don't trust each other's currencies, and they absolutely want to be done with the dollar, their adversary's currency. But they need to trade, and trade is generally done in dollars.

So what's the alternative?

The only real alternative is that they'll go back to using gold, as was the case before 1933. Gold will be used for settling accounts between nation states. Along the way, various national currencies will likely become redeemable in gold at a fixed rate. Perhaps the Chinese yuan first, then the Russian ruble.

At some point, currencies themselves should become academic. Currencies, after all, are just a government's promise to be redeemed in gold—usually a very unreliable promise. Gold itself will again be used as money in day-to-day commerce after this all sorts itself out sometime in the future. Unless, of course, governments institute a worldwide police state. The only certainty is that we're looking at some very dangerous and unpleasant times over the years to come.

International Man: What do you think the main catalysts will be to drive the price of gold higher?

Doug Casey: I've said for years that the gold price is about where it "should" be. In other words, it's always been said that a British sovereign, which is a little less than a quarter of an ounce of gold, would buy a fine meal for four people in London or buy you an absolutely first-class suit. And relative to other things, that's as true today as it was a century or two ago. Gold is neither overpriced nor underpriced relative to other real goods at the moment.

I would completely discount the meme of "gold suppression," which has been widely circulated in the gold community. It basically holds that the powers that be try to "smack gold down" when it sticks its head up. This is nonsense. Of course, they want to see gold and silver prices lower. They'd like to see copper and wheat, and cement prices lower too. But there's no active suppression of gold.

Why not? Despite the fact the central banks are by far the largest holders of gold in the world, they actually don't believe in gold. Western governments, central banks, and their economists largely think that gold is a pet rock, a delusion, and not worth their attention.

But when inflation gets truly out of control—that will probably be when the stock and bond markets have collapsed, and everyone is desperate for someplace to run and hide—gold will be rediscovered. The price will then go way above what it should be.

Three things drive gold from a psychological point of view: fear, greed, and prudence. The biggest is fear. We're going to see lots of fear in the world this decade, which will result in people trading other assets for gold. And as it goes higher, the second emotion, greed, will kick in. When anything goes up, everybody wants to get on the train.

But you shouldn't be driven by fear or greed. You should be driven by prudence, which is a bit of an anti-emotion. You should be buying gold coins at every opportunity. And I might say silver coins, too, because relative to gold, I think silver is an excellent bargain and a far more volatile speculation. It's the best time to own it in 20 years, for sure.

International Man: What is your view on the possibilities of where the gold price is going? How long do you expect it to take for it to get there?

Doug Casey: As far as I'm concerned, we're now at the low end of what gold "should" be worth.

I expect that 2023 will be a chaotic and scary year—something true of this whole decade, which is just getting underway.

Nobody knows for sure, but there are only 6 billion, probably moving towards 7 billion ounces of gold in existence. The amount of gold in the world increases at roughly 80 million ounces per year, about one and a fraction of a percent annually.

That's less than an ounce for every man, woman, and child on the face of the planet. And most of that gold is in the hands of governments, central banks, and major holders.

When gold moves the next time, I expect that it's going for a wild ride. And it will take mining stocks, which are currently very cheap, with it.

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The Best of Doug Casey

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