

# Gold, Valuable Because Worthless

The value of gold is that it generates no cash flows, it cannot be consumed, it cannot be used for much beyond ornament. It is in effect quite useless apart from the fact that humans have assumed it as a standard store and measure of value. Were it not scarce in supply it would be completely and utterly worthless.

Were gold to pay a yield, were it useful in the production of useful goods and services, were it unlimited in supply, gold's value true value would be discoverable.

If holding gold paid a yield it could be valued on the present discounted value of the income stream derived.

If gold could be used to make something useful, it could be priced in terms of the marginal value it added in producing those useful goods.

Gold cannot be priced in those terms. Gold can be priced, however, as an alternative to other stores of value, to other claims on wealth. One could argue that all other assets should be priced in gold.

Today, gold is precisely being priced in terms of all other alternative stores of value. It is telling us nothing more than that investors prefer this worthless, valueless object to government bonds, corporate bonds, equities, other goods, and most other commodities but for a few exceptions such as cotton.

It says a lot.