

## ***WHAT SHOULD THE PRICE OF GOLD BE?***

By Richard Thomas©

I have had numerous people pose this question to me since I have been in the gold business. There are a number of factors that impact the price of gold.

I have settled on three things that I feel pretty well impact and provide some insight to me on what the price of gold should be.

Historically, one Troy ounce of gold has on average purchased about 14 barrels of oil. Oil is currently above \$80 per barrel. So if you 14 times \$80 = \$1 120 per ounce. This is about gold's current price as I am writing this article. If oil goes to \$90 per barrel, just \$90 times 14 = \$1260 per ounce. The only trouble with this formula is that the current price of gold rises or falls with the daily price of a barrel of oil, so you should look at the 30 day and 90 day futures price of that barrel of oil to be able to get an idea of what gold's price will be in those time-frames.

Since about 1959 the money supply in the USA has increased around 7% on average annually. In 1959 the price of gold was \$35 per ounce. If you use this figure (1.07) as a base and times the price of gold (\$35) by the increase in the money supply per year (1 .07) to the 51st power (51 years) =  $31.519 \times \$35 = \$1103$  per ounce. Again, this method does not reflect the current very large increase in our money supply (over the last year or so) that the Feds have used as an economic stimulus. It also cannot be used as an accurate method to predict future prices because both the Fed and Congress can and do make changes that affect the money supply.

The mean salary in the USA is around \$55,000 per year. In the past an ounce of gold was equal to about one week's salary. So, if you divide \$55,000 by 52 weeks, gold should be about \$1058 per ounce. Again, due to our current economic crises, this method is not completely accurate. I believe that the average yearly salary in the USA has dropped due to our current economic troubles.

The price of gold is set in dollars, so if the dollar goes down in relation to the other major currencies of the world, the price of gold will rise. Because of the current problems that the Euro has been having, a lot of the people in the world feel safer putting their funds into USA Treasury bonds and this has kept the value of the dollar up a little. I do not have a better crystal ball than you do. The global financial markets are still in terrible shape. I believe that we have a lot more problems ahead of us. Now, if you believe that the USA economy will suddenly start moving up, and we can reverse our balance of trade deficit, you should then be selling your gold. It just seems to me that our politicians are just working harder to get us into a deeper hole. I believe that gold will, at the minimum, go up at least 10% a year for a number of years.

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