



Gresham Investment Management

The Value of Gold –
LBMA 2011

September 19, 2011



GRESHAM INVESTMENT MANAGEMENT LLC
We know commodities.SM

Valuation Methodologies

Real Estate

- ◆ **Comparables** – How have similar properties traded recently?
- ◆ **Replacement** – What would be the cost to replace the property if necessary?
- ◆ **Income** – What would similar properties cost to rent?



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Valuation Methodologies

Equity

- ◆ **Price/Book** – How have stocks traded historically relative to their book values?
- ◆ **Price/Earnings** – How have stocks traded historically relative to their earnings?
- ◆ **Dividend Discount** – What is the current value of the future stream of dividends of a stock?



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Valuation Methodologies

Other

- ◆ **Fixed Income** – $\text{Principal} / (1 + \text{Real Rate} + \text{Inflation Expectations} + \text{Default Risk})$
- ◆ **Marxian** – How does the use value compare to the built in labor cost?
- ◆ **Weapons** – What is the cost to destroy the weapon?



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Valuation Methodologies

Real Estate

- ◆ **Comparables** – How have similar properties traded recently?
 - Current Price
- ◆ **Replacement** – What would be the cost to replace the property if necessary?
 - Infinite
- ◆ **Income** – What would similar properties cost to rent?
 - Zero



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Valuation Methodologies

Equity

- ◆ **Price/Book** – How have stocks traded historically relative to their book values?
 - Current Price
- ◆ **Price/Earnings** – How have stocks traded historically relative to their earnings?
 - Infinite
- ◆ **Dividend Discount** – What is the current value of the future stream of dividends of a stock?
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Valuation Methodologies

Other

- ◆ **Fixed Income** – Principal / (1 + Real Rate + Inflation Expectations + Default Risk)
 - Current Price (if Principal = Forward Value)
- ◆ **Weapons** – What is the cost to destroy the weapon?
 - Infinite
- ◆ **Marxian** – How does the use value compare to the built in labor cost?
 - Zero



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Models

Categories

- ◆ **Backward Seeking**
- ◆ **Forward Seeking Descriptive**
- ◆ **Forward Seeking Predictive**

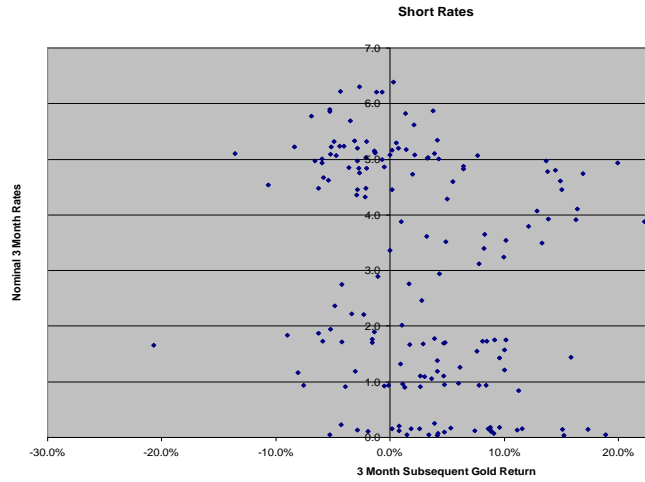


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Models

Parameters

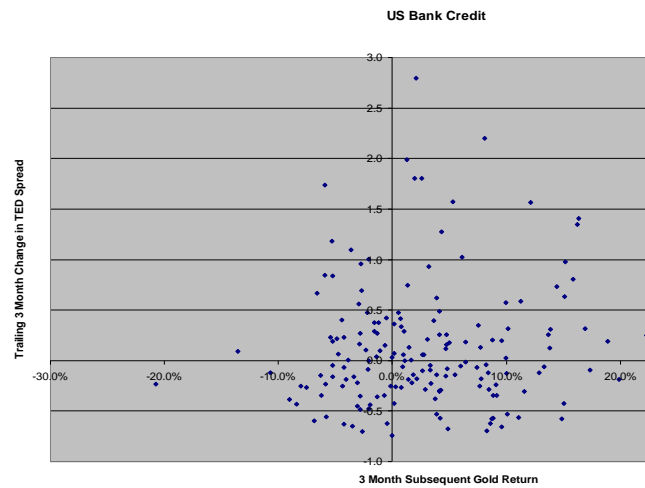


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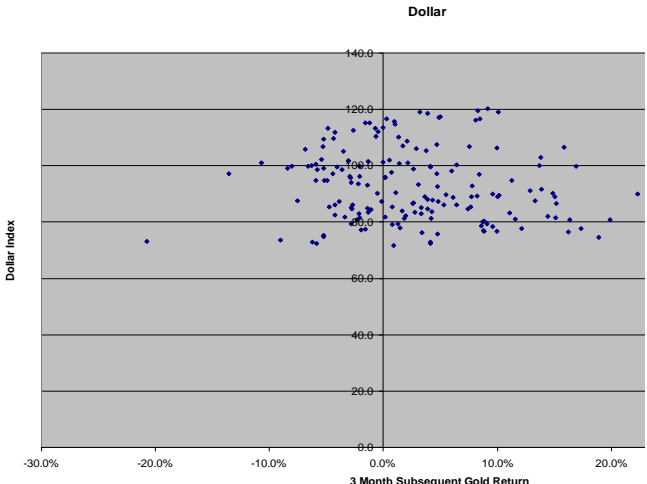


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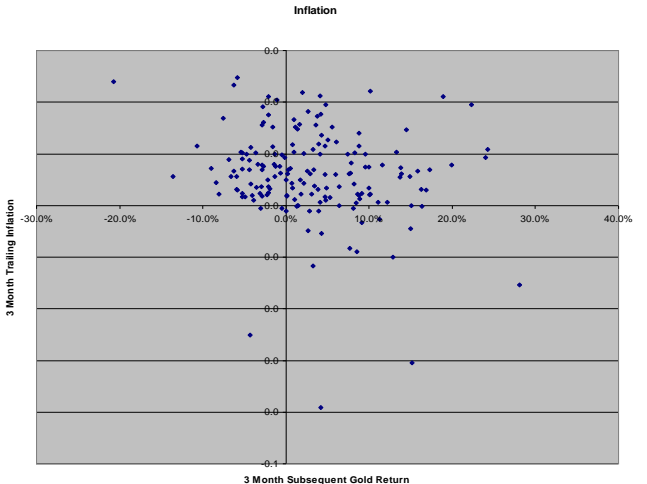
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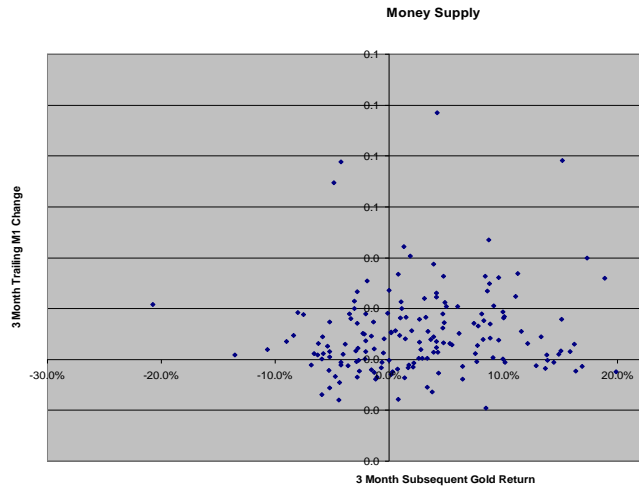
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Parameters

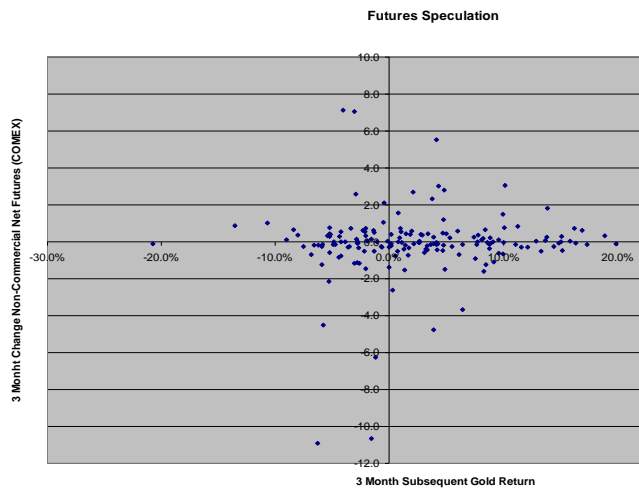


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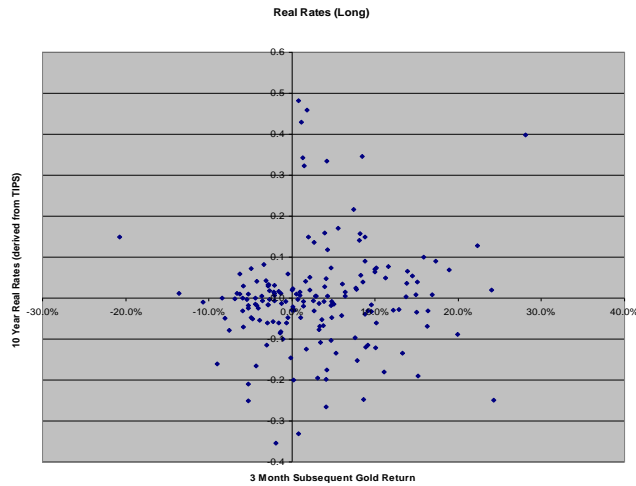


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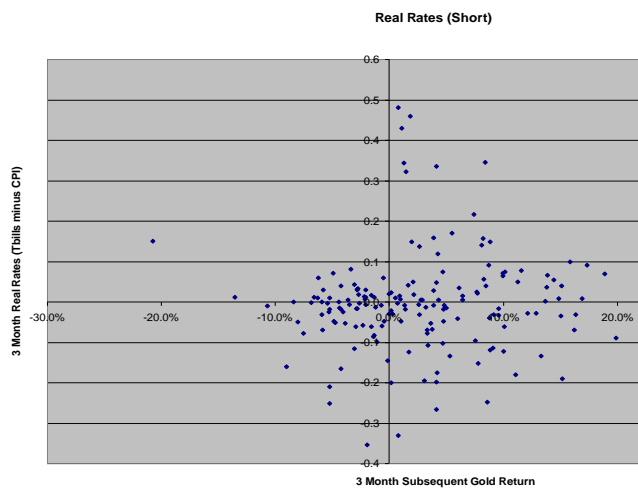
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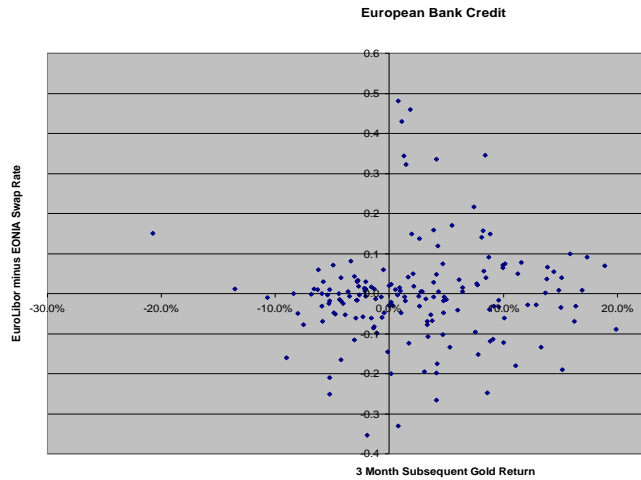
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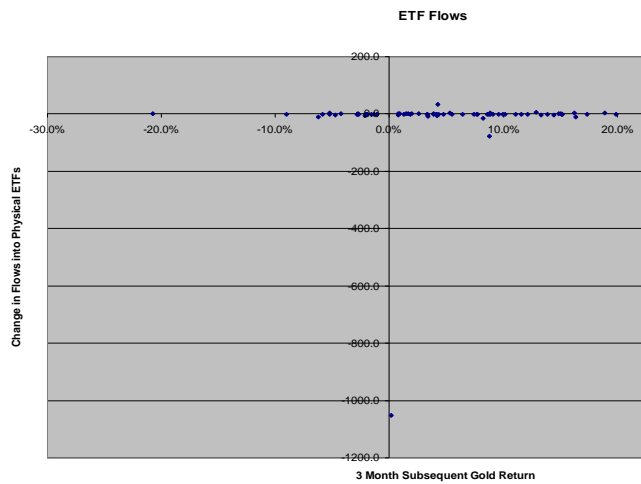
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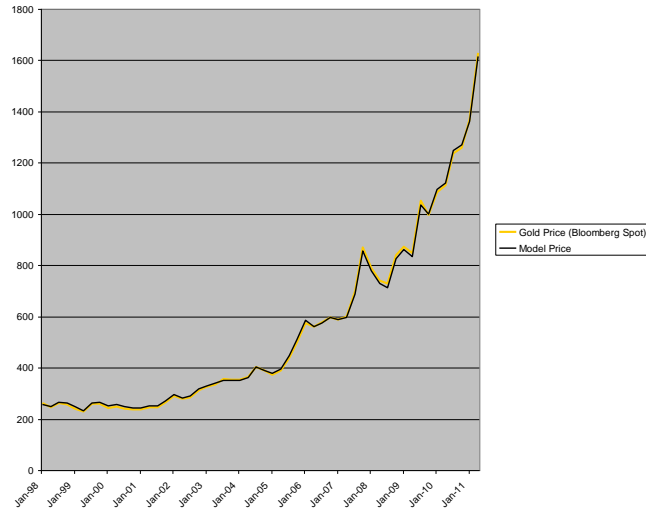
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Models

Results



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Models

Conclusions

- ◆ Gold's value is not absolute
- ◆ Gold's relationships to other factors are not absolute
- ◆ The model contains at least two significant flaws



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Historical Perspective

Freely Traded Gold

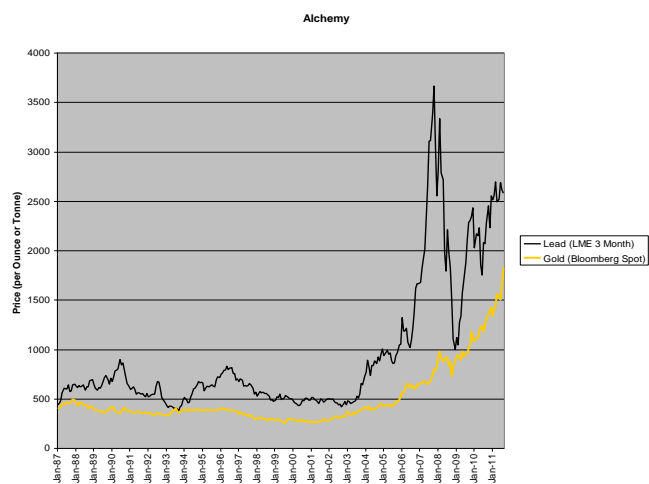
- ◆ From 787 BC (Croesus of Lydia) through the Crusades, Gold did not trade
- ◆ From the late 14th Century until the early 16th Century, Gold may have traded
- ◆ From the early 16th Century until 1973, Gold did not trade
- ◆ Since 1973, Gold has traded freely
 - Is that such a good thing?



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Historical Perspective

Freely Traded Gold



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Historical Perspective

Policy Perspective

- ◆ **Some have suggested that the US sell its gold reserves to reduce its debt**
- ◆ **That is an ahistorical solution**
- ◆ **The US should make a two-sided gold market at \$20,000 per ounce**
 - **Suddenly we have a gold backed currency**
 - **How many transactions would occur**
 - **Does not reduce the debt, but think about the asset side...**



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