Earlier this week the Reuters blogger Felix Salmon asked if the weather outside had warmed up to 5,173° F.

That’s because when it gets that hot, gold starts to boil. In two recent trading days, more than $1 trillion of the value of the world’s gold had evaporated. Nothing like Monday’s trading had happened in 30 years.

Salmon actually enjoyed watching the gold market drop, explaining that he wanted enthusiasts of gold investing, known as goldbugs, to lose a lot of money. Real pain, he wrote, is what’s required to kill a popular and dubious investment strategy.

Another high-profile skeptic on the investment thesis for gold is Berkshire Hathaway’s Warren Buffett, who has seemed to enjoy talking and writing about how unproductive gold is.

It produces no dividends, rents or interest. It produces no innovation. It produces no food or energy. If all goes well the investment just sits there, in a drawer or a bank vault if not buried in a field somewhere.

Buffett once observed to a Harvard University audience that “anyone watching from Mars would be scratching their head” as we pay people to dig gold out of the ground and melt it down, then we bury it again and pay other people to stand around guarding it.

Maybe it would help in understanding the case for buying gold if no one used the word investment. Speculation in gold aside, the appeal of owning gold among enthusiasts seems to mostly be about a safe place to store wealth.

Duke University professor Campbell Harvey calls the safe haven idea one of “the stories” around buying gold. Harvey, with co-author Claude Erb, a former portfolio manager, has concluded in a paper to be published this summer that there’s a lot of conventional gold wisdom that isn’t so wise.

Inflation hedge? “If your investment horizon is measured in centuries rather than years,” Harvey said, “then gold is a good inflation hedge.”

How about a currency hedge? Harvey and Erb found that the change in the real price of gold, meaning price adjusted for inflation, seems to be largely independent of the change in currency values.

As a safe haven in times of economic crisis? Harvey and Erb looked at a period of hyperinflation in Brazil, and gold in real prices declined by about 70 percent from 1980 to 2000. That was about the same as the real price decline of gold faced by a U.S. investor during the same period. A better idea for Brazilians, Harvey said, would have been to buy U.S. dollars.

Harvey and Erb are not exactly anti-gold; Harvey explained that he advocates holding a broadly diversified portfolio of assets that includes some commodities like gold. But try to remember that gold is just a commodity — one that still looks expensive even after the swoon of the past few days has brought the price down more than 25 percent from its 2011 high.

Harvey plugged the latest prices this week into a chart in his draft paper that showed the real price of gold since 1975. The result looked a bit like a line drawing of three-fourths of the Golden Gate Bridge.

The bridge tower on the left reflects the spiking prices of gold more than 30 years ago and the tower on the right is the big run-up that peaked in the last couple of years. What’s missing from completing the outline of the bridge is the suspension cable that runs from the right-hand tower down and to the right.

It doesn’t take much experience in technical investment analysis to get the point of the chart. Harvey provided the help
anyway, with the chart title of “Gold Still Has a Long Way to Go … Down.”

Erb acknowledged that the kind of safe haven gold enthusiasts talk about isn’t just protecting wealth from hyperinflation, as awful as that is, or other economic issues. In those situations there is still a government presiding over the economic mess and there is still currency changing hands in an economy.

What if the situation gets worse, and the government skips town and paper currency is burned to heat the stove?

Erb and Harvey pointed out that buying gold to get through that sort of calamity is not exactly a fail-safe strategy, either.

An outstanding example of this sits in the British Museum. It’s called the Hoxne Hoard.

It is a cache of nearly 15,000 Roman gold, silver and bronze coins along with silverware and gold jewelry items. A farmer and his friend found it when looking for a lost hammer in the village of Hoxne, in England, in late 1992.

No one knows for sure what happened, but it’s almost certainly the case that some well-off Roman family buried it for safekeeping. It was during the fifth century, when the Western Roman Empire was coming apart.

All of that gold does not appear to have done its owners much practical good. But, untouched for more than 1,500 years, at least their wealth stayed safe.

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