

CORE Comments

ON PLANNING AND INVESTING FOR THE TWENTY-FIRST CENTURY

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The Barbarous Relic

In the investment world, gold is often referred to as a 'barbarous relic,' a snide put down of the metal itself and especially of those who treat it as an investment asset. Unlike copper and silver, gold has few industrial uses and, as an investment, it does not produce income. However, throughout history, gold has been seen to be a safe haven, a place to put investment capital when securities investments seem, for whatever reason, to be less safe. Core has often held investments in gold, principally through an exchange-traded fund with the symbol GLD. For the last four years, we have held GLD or a similar fund in clients' accounts. In the last year, gold has returned some 35 percent, as against 19 percent for the S&P 500. In the last twenty-five years, the return from an investment in gold has more than doubled the return of US stocks.

As noted in these letters previously, many central banks hold gold and a number of central banks have increased the portion of gold they hold, partly a result of the American and European sanctions imposed on Russia after its invasion of Ukraine in 2022. Russia had invested a goodly portion of its reserves in US Treasury bonds and held those investments in Europe and America. These were seized by the US and European countries after the invasion and Russia has not had access to those reserves. Gold holdings may safely be stored in one's own country and are not subject to sanctions like those from which Russia suffers.

Gold's safe haven status has come to the fore again after the November election and since Mr. Trump took office. The blizzard of executive orders announced in his first weeks has raised a huge degree of uncertainty about many, many things. Co-president Elon Musk, if we may call him that, has contributed to this uncertainty in his attempts to shut down USAID and to control the Treasury Department's payments to the many recipients of federal funding. These unexpected, heretofore unimaginable, events have caused still greater purchases of gold and greater increases in its price.

In this connection, it may be worth noting that the United States owns more than 8100 tons (or 261 million troy ounces) of gold, which, at the present price of \$2946 per ounce, has a market value somewhat greater than \$760 billion. Interestingly enough, the US carries this gold on its books at \$42 per ounce or some \$11 billion. By revaluing it to the market price, America could, through a device called reverse swaps, use that \$760 billion to decrease the amount of new Treasury bonds to be issued to fund the federal deficit. We shall see if anything comes of this possibility.

By

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Despite the significant increase in gold's price in the last year and more, there is, I believe, every likelihood that the price will increase further. Hence, we are retain-

ing our investments in gold. Moreover, Core recently made a small purchase in a fund that holds American and Canadian gold mining companies. As one can imagine, the costs of mining gold are more or less fixed; as gold prices rise, the profits of these miners rise significantly. However, the prices at which the mining companies trade have not kept up with their rising profits. Hence, they are quite undervalued in a stock market that is generally quite overvalued.

Mr. Trump's executive orders. In his first month after returning to office, a flood of quite radical executive orders has been issued. Mr. Trump has withdrawn the US from the World Health Organization and from the Paris climate accords. He is trying to close down USAID. Meanwhile, Mr. Musk and the youngsters working for him seek to penetrate the Treasury Department's payment system, through which federal payments flow and which contains highly sensitive information on citizens. A federal court has issued a temporary restraining order to prevent this and has ordered the destruction of any information obtained therefrom. Will the court's order be obeyed? There is reason for doubt.

An explicit goal of the administration is to determine whether federal payments being made are in accord with this administration's goals and objectives. This is utterly contrary to the constitutional notion of the separation of powers between Congress and the executive. It is Congress that has the 'power of the purse' and determines how the federal government spends. It is the constitutional duty of the executive branch to see that Congressional enactments are carried out.

Republicans hold a majority in both houses of Congress. It has the power to change the law, but Republicans in both houses, with only one or two exceptions, seem willing to let Mr. Trump run the show through executive orders, despite the fact that some are unconstitutional on their face (birthright citizenship) and others directly contradict existing law. As to the latter, Messrs. Musk and Trump seek to withhold federal funding enacted by Congress, despite the longstanding law forbidding the executive branch from 'impounding' funds. The administration's on-again-off-again threats to impose significant tariffs are unsettling economies in the US and across the world.

I do not wish to write about political matters in what is meant to be an investment letter. However, the extraordinary political actions of the new administration have direct bearing on the investment markets. In my last letter, written shortly after the election, I wrote about the uncertainty and the risk that the Trump administration presents. None of Mr. Trump's actions since assuming office engender a less risky and less uncertain environment. My investment aim is caution.

A regulatory examination. For the last few weeks, much of my time has been absorbed by an examination by California's regulator of investment managers. This is the sixth or seventh exam by the SEC or California since I became involved with Core in the 1980s. These are always thorough examinations of Core's activities. They take a lot of my time to produce documents for the examiner and to answer questions. Despite the time burden, I am quite happy with the process: Core and similar organizations benefit from regulation by the government.

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