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BRIGHT FUTURE: But gold can fall in value as well as rise and is not always a sure-fire investment

You can pay a heavy price relying on gold

Gold jewellery may make a nice Christmas gift but it may not be a shrewd investment, says Barry O'Neill, investment director for Carbon Financial Partners in Aberdeen

In the run up to Christmas some of you may be thinking of lavishing your loved one with the nation's favourite precious metal, gold.

It's not my place to tell you not to do this but I do feel that it is my place to set the facts straight so you don't buy it as a guaranteed, one-way bet investment or a hedge against inflation – it isn't.

In jewellery form it is usually a thing of beauty, but in investing terms it is a speculative commodity bet.

It has been a couple of years since I last wrote about this and at that time the spot price of gold was around $1,400 (£925 at current exchange rates) an ounce, having fallen from a high of $1,920 (£1,268) an ounce in September 2011.

Fast forward two and a half years and the price is hovering around the $1,000 (£660) mark, with investment research and management firm Morningstar forecasting it will drop further in 2016.

When I reported on gold prices in 2013, fore-

Barry O'Neill

casters spoke of gold moving onwards and upwards through the $2,000 (£1,320) mark within six months and even to $2,400 (£1,585) an ounce by the end of 2014.

The consensus forecast for 2013 according to news agency Bloomberg was $1,813 (£1,197) an ounce.

So how could the "experts" be so wide of the mark with their forecasts?

Not only were they vastly over-optimistic about the spot price, they even failed to predict the direction of travel in a two-horse race.

The answer is twofold; "experts" have a dreadful record of predicting the future price of any asset and, like all other commodities, the price of gold can be subject to quite severe peaks and troughs due to the forces of supply and demand as well as market sentiment.

No asset goes up or down in one direction indefinitely. It is very difficult to find a true "safe haven" investment, so trying to be clever about the timing of your entry into or exit from any investment market is fraught with danger.

Investors generally flock to assets that are rising in price, often buying near the top and then running for the hills from assets which have become cheaper before selling near the bottom of the market. I am particularly fond of a cartoon that we use to illustrate this process. It has the strapline of "repeat until broke", which beautifully sums up many DIY investors' thought processes.

If you are thinking of buying gold as an investment rather than simply a thing of beauty, please do so with your eyes open as to its risk and return characteristics.

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Chartered Financial Planners of the Year 2015