

Is Gold In A Bubble?

By Vineer Bhansali | October 20th, 2025

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The other day I was driving my mother from the airport, and I asked her what she thought about the current price of gold, which was hovering around \$4,000 a Troy ounce. She said that when she got married (in the early 1960s), the price of gold in India was around Rupees (“Rs”) 120 per “Tola” – she said she remembered it well since her father said at the time it was quite expensive, having recently gone up a lot in price (for a history of gold in India see, for example, [here](#)), but still worth owning. A tola is an ancient weight measurement unit which equals 11.6638 grams. So, rounding up, the price of 24 karat gold in Indian Rupees then was about 10 Rupees per gram. The same price today is about Rs. 12,000 per gram, so over the last 65 years the price has gone up over 1,200 fold in Indian Rupees. Of course, in the US gold was pegged and was at \$36.50 until President Nixon made it float in 1971. Today (Source: Bloomberg) the price of a troy ounce of gold is around \$4,200 an ounce. So, it has gone up by about 115-fold in US dollar terms. Over the same time period, the Indian Rupee has gone from Rs. 4.76 per USD to Rs. 88 per USD, or an 18-fold weakening of the currency. Surely someone who put their money in paper Rupees has lost all of its purchasing power over the last 65 years.

These are large numbers! Instead of going through more conversions let me just summarize – if we think of gold as a store of value, then someone who invested in gold in 1960 – or benefited from the gift of a rich uncle – is a thousand or two-thousand times better off (depending on how you choose to compound) than if they had left their money in Indian Rupees. And countries like India have had a much longer history of printing money and inflating away wealth than the US and even Europe, so it is no wonder that my mother and her generation have always remembered the age-old wisdom – never sell your gold! What she and her generation and her ancestors do is to give the gift of gold in the form of jewelry to their children and grand-children, and in many cases, this is done ritually during big occasions, such as the wedding of a child or a grandchild, as my son and his new wife happily discovered last year.

The point of this story is that there is a long history in the world outside of the US of fiscal profligacy and money printing, and in those countries the citizenry knows that when push comes to shove, the government will print money! And the only protection when the government debases the currency is hard assets like gold. Remember, the term “gold” as I use it here does not limit itself to my mother’s jewelry: it can refer to the multiple ways you can invest in gold outside of owning an ingot, including gold ETFs and mutual funds, gold futures and swaps, and gold stocks such as mining companies that provide indirect exposure to the precious metal.

I have been writing about this inevitability now for about three years (see [“Going For Gold... Again”](#), [“GITA: Gold Is The Alternative”](#), and our recent paper in the Journal of Alternative Investments [“Mining Regimes For Gold”](#)). Before we did the research that drove these publications, I used to think in the conventional way like as one who has only seen three decades of disinflation, credible central banks, and globalization would think, i.e. gold is not a good “investment”. But our research showed that a regime change is underfoot, and in a big way. And the last time this regime was seen was maybe three decades ago. When faced with facts, as a scientist I have to allow myself to change my mind, which is what I thankfully did back in 2022. This regime shift is inflationary, high-volatility enhancing, and conducive to de-globalization. Throw on top of this the loss of central bank credibility (in many ways well-justified), and an explicit loss of independence, and the case for holding gold became stronger. Then top it off with the geopolitical transition where the BRICS and others are trying to fend off US hegemony, and it is not hard to see why institutional needs from central banks are driving gold to new records as we speak.

Gold is what economists have called a “Giffen” good and a “Veblen” good. To remind you of this 19th century concept, a Giffen good is an “inferior” good where rising prices increase demand (see [here](#)), especially at the lower economic rungs. This is where my narrative earlier becomes relevant. For “poor” countries like India, the allure of gold increases, not decreases with price (despite it being an “inferior” investment, as compared to say building something real). This is because despite rising prices, there is no substitute for gold that is easily accessible and tradable for safety, and for someone who needs safety, gold has to be bought despite its price, since the alternative is losing the value of your cash (say in Rupees)! One might surmise that Bitcoin or other digital assets could be a good place to be. But that’s another story. Bitcoin can be brought under government control, or the block-chain can be

hacked, at least in some future world where new computation power gets to that point (on this topic please read my piece [“Is Quantum Computing Investable As The Next AI?”](#) in this forum on quantum computing, which is now the rage). But rather than dissing crypto, let me just say that gold is more accessible and has a longer history of holding “trust” than crypto (anecdotally earlier this week PayPal’s crypto partner [minted](#) and destroyed \$300 trillion of crypto stablecoin, and this probably does not enhance trust in the public for digital dollars).

Gold is also a “Veblen” good (see [here](#)) which is a “luxury” good where increasing price increases demand since it becomes a status symbol. Certainly, if the edict “whoever has the gold, makes the rules” holds, then the rapid purchase of gold from central banks can justify that whoever ends up with the largest hoard of gold can challenge the hegemony of the US – or at least show that they have the means to do so.

A question comes up here: the US owns almost 250 million ounces of gold (thanks to Ed Yardeni for pointing to this [link](#)) which, if priced at current market prices would be worth a clean \$1 trillion dollars. So couldn’t the US just re-price its own gold? Well, as Dr. Ed points out, this is only a drop in the bucket when we see that the total debt of the US is \$38 trillion and growing. According to his estimates, the total above-ground gold in the world at current prices (about 7 billion ounces) is about \$30 trillion in value and is smaller than the US debt.

So where does this all leave us?

I have been tracking a very simple chart that I will describe in words. This chart shows the evolution of the stock markets, inflation and bond yields for the last 70 or so years. We have had two secular periods of note. The first one started in the 60s and ended with a bang in the mid-80s, as inflation skyrocketed and interest rates and yields reached peaks near 20%. Then came Paul Volcker and a credible central bank policy and fiscal restraint. For the next thirty years yields fell, inflation fell, and central banks earned their credibility. Following the Global Financial Crisis, the descendants of these credible central bankers did their best to mis-spend the credibility and overreached in their mandates, for all practical purposes becoming the equity market’s partners in wealth distribution to those who could afford stocks. The poster children of this irresponsible central banking were the Bank of Japan and the ECB, which used weak economic logic to drive interest rates and bond yields into deeply negative territory. This amazing phenomenon is described in detail in my CFA Institute book [“The Incredible Upside-Down Fixed-Income Market: Negative Rates and Their Implications”](#) where I anticipated some

of the consequences. The consequences were, as expected, rising inflation and ultimately its consequences, the need for safety, especially in countries other than the US. Not to speak of the severely under-water bond purchases.

In my view the regime shift in the global political environment is just a symptom, perhaps an accelerant, of the much needed secular trend change. In this environment, foreigners will rationally hedge their massive dollar stockpiles with increased holdings of gold initially, and then other assets, such as a new bond trading bloc at some distant future time. Holding Euros, Yen and other currencies, which can come under the US orbit immediately does not provide the protection they need. Indeed, in this sense gold is the only game in town for now, until the new currency bloc develops (and if allowed to do so, which is again not guaranteed).

So if all of the above is believable, we have already entered a new secular period that could last a decade or more. This one will look more like the period from the 1960s to the 1980s than the one from the 1980s to the 2020s. In this new environment, slowly and surely yields are likely to rise, volatility is likely to pick up, fiscal and monetary policy will converge to meet local obligations (read: print money), markets will have fatter tails, and stock-bond correlations will not diversify portfolios. Right now this is still a low probability outcome, but over the next few years, it is likely that the regime shift which is underway will get the public's attention. If the recent performance of precious metals tells us anything, it is this: when there is a regime shift, either get on the regime shift train, or move out of the way. Of course, gold does not have any "intrinsic" value to speak of, but non-dividend paying internet stocks don't have any intrinsic value either. Both are assets that give their holders the right to something and the increase in price provides a gain in marked to market wealth. In the case of gold, I argue this is the right to safety of principal, and in the case of equities, it is the right to ownership of the underlying business. It is hard to justify one being important than the other when such major regime shifts are happening.

To me gold is just a symptom of something big happening underfoot. The price of gold will at some point reach a level where it collapses under its own weight – timing unpredictable. As all assets that have a rapid run-up, the exponential price increase will also burn the late comers to the party. But, in the meantime it provides a hedge against everything else. At the point where gold collapses, there is likely to be a handoff to other assets that provide some other type of protection from inflation and reckless central banking. And while I do not know yet

what these assets will be, they are unlikely to have a US Dollar, Euro or Yen sign in front of them. Many rigidities of the current financial setup that we have become accustomed to, such as earning “spreads”, selling “vol”, and earning “carry” will come into question. Preparing for this outcome will require investors to build safety and protection for their assets now while there is still time to do so. Once people start running for the exits, not everyone may get out in one piece. So to answer the question posed: gold might very well be in a “bubble”, but at this point of economic history, it seems to me to be a fairly rational one.

Important Disclosures

Vineer Bhansali, Ph.D. is the Founder and Chief Investment Officer of LongTail Alpha, LLC, an SEC-registered investment adviser and a CFTC-registered CTA and CPO. Any opinions or views expressed by Dr. Bhansali are solely those of Dr. Bhansali and do not necessarily reflect the opinions or views of LongTail Alpha, LLC or any of its affiliates (collectively, "LongTail Alpha"), or any other associated persons of LongTail Alpha. You should not treat any opinion expressed by Dr. Bhansali as investment advice or as a recommendation to make an investment in any particular investment strategy or investment product. Dr. Bhansali's opinions and commentaries are based upon information he considers credible, but which may not constitute research by LongTail Alpha. Dr. Bhansali does not warrant the completeness or accuracy of the information upon which his opinions or commentaries are based.

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