Golden Opportunities: What Precious Metals Can Tell us About Finance
Brian Lucey

Gold is an enduring mystery, desired, used and traded from humanity’s earliest history. It is a metal that can be used as part of industrial processes but also of course as an adornment, and is perhaps most commonly thought of as money. Indeed for much of history, gold, and to some extent silver, were the mainstays of currencies. We speak of gold standards for quality, golden means, gold plated, golden eggs, golden opportunities - gold permeates our consciousness as a touchstone for wealth. What is it about this metal which has held the fascination of people over millennia?

The total value of gold traded worldwide is enormous. Close to 3/4m tons of gold are traded yearly, worth in excess of $30 trillion, twice the GDP of the whole of the European Union. Yet, all the gold ever mined would fit neatly in a 20 square metre cube on a tennis court. Gold has been known to be a useful part of portfolios for decades, and is often seen as a useful asset to hold in the face of inflation. Given the size of the market therefore, and the linkages that gold has in terms of transferring information to and from other financial assets, a detailed understanding of its dynamics must be a core part of financial research.

Despite the size and thus importance of the gold markets, up to the early 2000s it was a seriously neglected area of interest for academic finance research. In the mid 2000s, post my PhD on the nature of apparent anomalies in equity returns, I began looking at other markets on which to apply some of the methods I had used, and to serve as a check on the findings in my PhD. Through other research, using tools originally developed in physics literature, I was aware of the gold market. At that time the gold price was beginning to tick upwards after years of marking time and so I began investigating applying these two strands of literature to gold, and from there began to write extensively on gold, other precious metals and more general commodities.

Interrelationships: gold and financial markets – My most recent lines of research are around how interrelationships between commodities (usually precious metals) and economic and financial markets evolve over time. The abundance of daily or even higher frequency data in finance is a boon to some forms of research. However, the danger of focusing down too much is that we lose sight of the fact that finance is ultimately a social science, and thus we need to look at human timescales, if we are to make the strongest social impact.

One strand of this research therefore involves the creation, with colleagues in the UK, of historically linked data, which will allow us to evaluate how these relationships have or have not changed over time. Another involves using methods that allow for evolution in relationships to see when and under what conditions these hold. An example is the relationship often claimed between gold and inflation, which we find to be very unstable. A second is the crucial role in economic uncertainty in determining whether or not gold is a so called “safe haven” for investors. A third is to surface and disentangle the contribution made to the world gold price by various exchanges – London is the biggest but is not the dominant market, this being New York.

This research has been published in over 20 peer reviewed articles and has formed the basis for a number of symposia and special issues. I have been grateful to obtain funding over the years from the London Bullion Market Association, the leading industry association for precious metal research and refining.

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Brian Lucey holds a BA from Trinity, in Economics (1985), an MA in economics from NUI (1988) and a PhD in Finance from Stirling University in 2003. He has been a member of Trinity since 1992 and was elected Fellow in 2003. He is Professor of International Finance and Commodities at the Trinity Business School and has published over 100 peer reviewed articles in finance and economics. His present research focuses mainly on the role and function of precious metals as financial assets.
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