

Here is why gold is in a multi-year bear market - historical price behaviour from 1920s

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Of late, [gold prices](#) hit a 4-year low, besides retracing around 50% of rise witnessed from the lows of \$251. This decline doesn't look like the end of bear market, against 12 years of strong [bull market](#) from the lows of \$251 to \$1920 registered in 2011.

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After seeing [gold](#) rallying for more than a decade and delivering spectacular returns of around 667 per cent from absolute lows of \$251, it will be quite natural for investors, both small and big, to get attracted to lower prices.

But, the moot question among investor community is whether the yellow metal is worth buying at these levels. To decipher this puzzle, we dig out all the data at our disposal from 1920 onwards to study different bull and bear cycles.



Interestingly, we found that bear markets consume more time than the time period through which bull markets lasted. By this logic, we can easily conclude that the recent bull market high of \$1920 will not be taken off for at least another 8 years.

In 1920s, gold prices hovered around \$20.69 for around 12 years. When prices rallied after 12 years of consolidation, that rally lasted only for 3 years till 1935 from a low of \$20.69 - 34.80.

Interestingly, this 3-year rally also lead to another 12 year of consolidation which has seen prices moving in a range around \$35. But in 1970, when a massive bull market started from the lows of \$35 registered in 1970, prices rallied up to \$850 which resulted in a whopping gain of 2332%.

This bull market lasted for a decade and was interrupted by a two-year of correction which has seen 44% value erosion from the top of 185 registered in 1975.

But, there were many fundamental factors, which aided this massive bull market, like low growth and high [inflation](#) levels in USA and European economies, Oil embargo of 1973, lifting curbs on gold ownership by the then President of USA [Gerald Ford](#) which allowed private citizens to own gold, [Iran](#) revolution in 1979 and erstwhile USSR's invasion on Afghanistan.

When this bubble got burst, prices were down to as low as \$251 in the [bear market](#) which lasted for 19 years. This strong bear market again paved the way for another 12-year bull market which has seen gold prices appreciating by 665% from the lows of \$251 - 1920.

Now, the past price behaviour is very clear to us, based on which we can easily conclude that the bear market which has started in 2011 is just 4 year old and has a long way to go.

Another interesting observation of recent bull market is that it has no negative return in all 12 years of its upmove unlike bull market of 1970s which has seen a year of breather in between.

Based on these historical facts, we conclude any rally in gold will ultimately pave the way only for downmoves.

Short term Outlook:

Since 1920, we found that almost all major tops were followed by around 44% of correction both in bear as well as bull phases, which paved the way for sustainable pullback rally.

However, the first downswing following 1980 bear market consumed 65%. Hence, there are bright chances of correction getting arrested around these levels from where a sustainable pullback rally can be expected from around 1050 levels.

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