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By Greg Gann

Buy Gold in Euros; Not Dollars

The S&P500 is at an all-time high. Will this last? Over the last two years, new highs have been erased with corrections, resulting in a market that until Brexit was trading sideways, and going virtually nowhere.

Britain voting to rescind its membership within the European Union was supposed to be a really bad thing. Yet, subsequent to what has been considered a devastating election outcome, markets have rallied. In the U.S., the market has broken out of its two year trading range. And, it seems as if a new all-time high is hit almost every day post Brexit. What gives? The only conclusion is that once again the market is interpreting bad news as good news in hopes of more easy monetary policies and low interest rates for longer.

The very same monetary policies and authorities who created inflated housing and stock markets before the 2008 crash are back at it. But this time, it is with vengeance. Interest rates around the world have never been lower. In fact, bonds issued by about a third of all the world's developed countries issue negative interest rates. You have to pay Switzerland, Japan, and Germany for the privilege of lending them money. No thank you very much.

The July issue of the Felder Report illustrated how the inflation of asset prices relative to disposable income has never been higher, including the dot com and housing bubbles. For the last five quarters in a row, the cumulative earnings reported by the companies within the S&P 500 index have declined. World trade is compressed. And, gold which is a fear indicator has been by far one of the most superlative places to invest this year.

Because of the rise in gold prices this year, there has been tremendous demand for investing in the precious metal. Most Americans invest in gold denominated in dollars. There is generally a well -established relationship between gold and the U.S. dollar. The weaker the dollar, the stronger prices for gold go. Because of subpar GDP growth in the U.S. as well as other measures that do not indicate a strong economy, the U.S. dollar for the last year has declined.

The market is pricing in almost no chance for any significant interest rate increase in the U.S. before the end of 2017. All of this has led to a weaker dollar, and a boon for gold denominated in dollars. By loading up on gold expressed in U.S. dollars, investors are knowingly or unknowingly making a bet on when interest rates in the U.S. will rise and the inherent strength of the dollar. This to me is a big bet. Many of the same market participants who didn't expect Britain to leave the EU are now betting on how far out the Fed will go before raising interest rates.

The stock market is trading in a way that is ignoring the fundamental weakness of the underlying economies. It is betting on more monetary stimulus and continued almost zero interest rate policy out to the distant future. Investing is about taking calculated risks. It should not be about gambling. This cycle has transpired longer than I imagined. Just like real estate that was appreciating from 2000 to 2007 at a rate far in excess of peoples' wages, this cycle has gone for a long time. I don't know if the stock market can be compared to the housing market of 2005, or if it is more akin to the market of 2007, but for me, the mixed messages are disconcerting. There are many investments whose performance is agnostic to the direction of the market. One of these is gold. However, unlike the majority of U.S. investors who are allocating to gold denominated in dollars, I believe that notwithstanding our challenges, the U.S. is by far the strongest economy on the globe. I also feel that Europe is a grand experiment that is becoming undermined. For these reasons, where I am allocating to gold, I am doing so expressed in Euros. I believe these will appreciate not only with respect to appreciation of gold, but also relative to that appreciation compared with any depreciation in the Euro. I believe in the long term strength of the dollar, and I also believe that interest rates will rise sooner than the market is pricing. I also believe that the Euro will lose ground because of the fundamental weaknesses and challenges within the region. For all of these reasons, I want my gold measured in Euros, rather than dollars.

Unusual times call for outside the box thinking and strategies.