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**UP AND DOWN WALL STREET DAILY** | Online Exclusive
By **RANDALL W. FORSYTH**

What Zimbabwe Can Teach America About Asset Values

WHERE WAS THE BEST PLACE to invest in 2007?

If you had picked emerging markets a year ago, you'd have been rewarded with a 33.55% return, by Morgan Stanley Capital International Indices' reckoning. And if you were keeping score in dollars, which after all is what really counts to most Barron's Online readers, you netted 39.78%. (Thanks to Bianco Research for gathering these data.)

But that paled next to 2007's top bourse: The Zimbabwe Stock Exchange, which gained 322,111%. Jot that down if you're looking to win a bar bet.

Yet that gain is far less spectacular than it seems. Inflation was estimated by the Reserve Bank of Zimbabwe at 24,059% last year, so the real gains in stock prices were far less than the nominal numbers indicate.

And that inflation estimate is just that. With goods disappearing from store shelves in the hyperinflation, Zimbabwe's Central Statistical Office stopped providing inflation data in September because it had no prices to go on. Independent economists estimate inflation is running at 50,000% to 100,000%, according to local press reports. That would compare with the 32,400% inflation rate in Weimar Germany in 1923.

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Yet it is not only inhabitants of madman Mugabe's hell on earth who suffer from this money illusion. Americans similarly delude themselves that they are realizing gains when prices rise in terms of devalued dollars.

For instance, the New York press Wednesday trumpeted continued gains in the local property market. "Apartment Prices in Manhattan Defy National Real Estate Slide," the New York Times asserted. The average price of a Manhattan apartment rose to \$1.4 million in the fourth quarter, up 17.6% from a year earlier, according to broker Prudential Douglas Elliman.

But those gains are illusory as the stock market's in Zimbabwe.

Reports the New York Sun, even as the dollar price of Gotham flats has soared, the value of an average Manhattan apartment has plunged nearly 39% over the past six years in terms of real money -- that is,

gold. In other words, it isn't that the apartments are gaining value so much as the dollar is losing value.

The decline in the real value of Manhattan real estate is attracting buyers from abroad who see what their \$1.47 euros and \$1.99 pounds can buy in the Big Apple. Brokers report foreigners have been big buyers of new luxury units, such as the former Plaza Hotel, which has been converted to apartments, and on Central Park West.

But it isn't just Manhattan real estate prices that have been distorted by the dollar's decline relative to gold.

The ascent in crude oil to the \$100 a barrel level has captured the media's fascination, as if that round number had more significance than \$98 or \$99. But is oil actually rising?

Long-time gold bug James Turk writes on goldmoney.com¹ that, in terms of gold, crude oil prices have been relatively stable since 2000, even as they have more than tripled in dollar terms and more than doubled when measured in euros. So, is crude gaining value or are paper currencies losing value?

Finally, there's the stock market. Since last July, the Dow Jones Industrial Average has plunged 28% in gold terms -- a bear market by any definition.

While the DJIA is off about 7% from its peak around 14,000, it's down four times as much in real money. In gold terms, the Dow has fallen to the value of about 15.25 ounces of gold from 21.25 ounces in July 2007.

But since July 1999, when it took 44 ounces of gold to "buy" the Dow near the peak of the dot-com bubble, the Blue Chip Average has lost almost two-thirds of its value in terms of gold.

At the other end of that extreme, when gold hit its previous record of \$850 an ounce in January 1980, it only took a single ounce of the metal to buy the Dow at 834, with change to spare. At that time, gold was overvalued and stocks were undervalued.

Now, the situation is different. Prices of things such as crude oil, Manhattan real estate and, until recently, U.S. common stocks have been rising in direct proportion to the loss of paper currencies' value in gold.

In Zimbabwe, it's well recognized that the rise in stock prices represents a flight to an asset that appreciates in direct proportion to the loss in the purchasing power of the currency. Americans should learn from Zimbabweans.

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