

Business

Gold regains its shine as an investment

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By Tim Grant, Pittsburgh Post-Gazette

Gold was out of sight and out of mind for most investors for more than 20 years while it consistently lost value and was widely considered to be a losing proposition. But recently the precious metal has regained its shine.

The gold price reached a new all-time high of \$865 a troy ounce within two trading days in 2008. It steamrolled past \$920 an ounce by the last week of January, and some predict it might go well past \$1,000. Spot gold prices closed on Friday at \$923 a troy ounce.

"People are becoming increasingly willing to consider gold as other assets are underperforming," said George Milling-Stanley, a spokesman for the World Gold Council in New York.

Although gold no longer is used as currency in modern society, it is an enduring form of money that people still rely on as a way to hold their wealth and diversify their portfolios when they become nervous about assets such as stocks and bonds.

As the housing and credit crisis lingers, stock prices tumble, interest rates fall and the dollar weakens against other currencies, gold, silver and other precious metals have thrived.

Still, some investors avoid gold because it does not pay a dividend or generate a stream of income. Also, while its price has increased threefold in six years, there is concern as to whether it can maintain the momentum.

"When an asset is selling at a record high, it's always the time to sell, not buy," said William Gruver, a former general partner at the international investment banking firm, Goldman, Sachs & Co., who now teaches at Bucknell University.

He said according to a concept called "Regression to the Mean" everything has an average over time and over time that's where the price will go. The long-term tendency of the price will be to go to that average.

"I'm not saying gold will stop at \$920 an ounce and go straight south," Mr. Gruver said. "I can see gold going to \$1,000 an ounce. But in the next 18 months I think the price will be closer to \$800 an ounce than \$1,000."

As an investment, gold is often misunderstood and viewed with a certain amount of suspicion by people who are unfamiliar with the precious metals market.

Buying and selling gold can be very different from owning stocks and bonds, especially if an investor plans to take physical possession of the metal in the form of gold coins and gold bullion bars.

But there are other ways to own gold indirectly by buying shares in gold mutual funds, gold mining stocks, gold options and futures, and through gold exchange-traded funds.

The World Gold Council three years ago pioneered the idea of gold ETFs so that investors could have a pure exposure to the gold price yet be able to easily buy and sell shares on a recognized stock exchange.

The fund, which trades on the New York Stock Exchange as GLD, currently has \$18.5 billion worth of gold owned by shareholders in its vaults, which represents 70 percent of all gold owned by ETFs.

"There is no bad way to invest in gold," Mr. Milling-Stanley said. "But the answer for individual investors may be different. It will take a certain amount of education before many investors really begin to get on board with gold. But more sophisticated investors are already there and that's one reason, among many, why we are at the levels we are at today."

Gold has been a symbol of wealth and a form of money for thousands of years. People around the world still go to great lengths to mine it from the ground because of its beauty, rarity and timeless value. It is redeemable in any currency in any country in the world.

And in times of economic turmoil and political unrest, gold is a means of storing value in a way that is not possible with paper currencies. Gold also is considered to be a good hedge against currency devaluations and inflation because its value often moves in the opposite direction of the U.S. dollar.

But gold in past years has been largely avoided by many investors because it was a perennial money-loser. After hitting a record high of \$850 an ounce in 1980, it fell continuously to \$250 an ounce in 1999. The current gold bull market began in April 2001 when its exchange rate was at \$255 a troy ounce.

"Gold will not collapse this time around," said James Turk, founder and chairman of GoldMoney.com, a digital storage company for gold based in London that allows clients to buy and sell gold online.

Mr. Turk, co-author of "The Coming Collapse of the Dollar," which was published in 2004, predicted the current subprime mortgage crisis, the credit crunch, the falling dollar and the rising price of gold.

"The U.S. dollar is still overvalued and gold is undervalued," Mr. Turk said. "So, it still makes sense to accumulate gold because there's still lots of potential for gold to appreciate as the great unwinding of the financial markets continues."

Mr. Turk said while the price of crude oil is edging higher, an ounce of gold still buys the same amount of crude oil it did anytime over the past 60 years.

"What's happened is crude oil is not getting more expensive, the dollar is being debased and is losing its purchasing power due to inflation," Mr. Turk said. "The way we protect ourselves is month in and month out, buy gold."

The price of gold would have to reach about \$2,250 an ounce in inflation-adjusted price to match the previous high of \$850 in 1980. Although it has reached a record high in nominal price, gold could still double in value and not reach where it was in 1980, which some experts say, provides some idea of its potential upside.

Investors who buy gold are betting that its price will appreciate faster than the rate of inflation, said Dr. Gary M. Quinlivan, author of the "Gold Standard League" and dean of the Alex G. McKenna School of Business at Saint Vincent College.

He said if gold appreciates less than 4.1 percent -- the current rate of inflation -- its real value goes down.

"Myself, I'm not going to jump out and buy gold," Dr. Quinlivan said. "But a financial planner would advise you to hold some gold. If the market crashes, people see gold as very secure. It's the asset of last resort, and the gold price would skyrocket."

Shawn Hackett, a commodities and stock broker for Hackett Financial Advisors in Boynton Beach, Fla., said most clients who come to him for advice already have lots of stocks and want to diversify. He recommends gold-exchange-traded funds and gold futures.

"Most of my clients are most comfortable with ETFs," Mr. Hackett said. "They can buy ETFs through their stock accounts, and they understand it because it trades everyday on the market and they have easy access to it."

Gold futures, however, are not for the faint of heart. Futures markets are often far more volatile than many stock investors are used to, and that can make them uncomfortable.

"An ETF gives them a way to buy gold this second and not step outside of what they are comfortable with," Mr. Hackett said. "And it does diversify them to a different asset class that is not correlated with the stock market."

One of the benchmarks that Mike Martin, a financial adviser in Columbia, Md., uses to compare gold against the Dow Jones average is to divide the DJIA by the current price of gold.

In 2000, at the peak of the stock market, it took 40 ounces of gold to buy the Dow Jones average. Today, it costs about 14 ounces of gold to buy the Dow Jones average.

"Most people think gold is a weird investment to have in a retirement account because it's not traditional stocks and bonds," said Mr. Martin, chief investment officer for Financial Advantage Inc., which caters mostly to retired clients.

"The main reason we recommend gold ETFs is a hedge against paper currencies," Mr. Martin said. "We call gold the only dependable currency because no government can influence the supply of it. They can run the printing presses, but they can't print more gold."

Mining stocks also have benefited from the boom in precious metals.

The Dow Jones Precious Metals Index, which measures the performance of U.S.-trading stocks of companies engaged in the exploration and production of gold, silver and platinum-group metals, has a one-year return of 36.37 percent and a five-year return of 21.44 percent.

However, the junior gold mining sector, which includes mining companies producing less than 150,000 ounces of gold a year, have not done as well.

Jeff Pritchard, vice president of investor relations for Capital Gold Corp. in New York, said that often when investors want to diversify in gold and don't know much about mining, advisers will steer them to large mining companies.

Although minor companies have greater potential for appreciation they also pose a greater risk of loss.

"A junior mining company has maybe two mines," Mr. Pritchard said. "The majors have 10 to 20 mines around the world mitigating risk. What we're not seeing even though we are making money is a correlation to our profit and share price."

Robert Lutts, president and chief investment officer of Cabot Money Management Inc., in Salem, Mass., is predicting gold will go higher and recommends his clients hold at least 10 percent of their net worth in gold and precious metals.

"My belief is before this gold bull market is over I expect it to reach \$1,000 an ounce this year and \$2,000 an ounce in a few years," Mr. Lutts said.

"Right now, most 401(k)s don't allow you to invest in gold. But before this is all over I believe that many 401(k) retirement plans and pension strategies are going to be adopting gold and other precious metals as a significant weight in their portfolios."

However, Dave Harper, editor of Numismatic News, a weekly newspaper for collectors of U.S. coins based in Iola, Wis., said there was potential danger in jumping on the gold bandwagon at this point because the reason for gold's rapid climb is the shaky economy has made investors both fearful and greedy.

"The risk in investing is buying the hot thing at the absolute peak," Mr. Harper said. "That's why most investment advisers tell clients to put no more than 5 percent of their total assets in gold."

"That way if you're right about gold you can feel good, and if you're wrong you won't miss a meal or lose your house over it."

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