



The Gold Rush - To Early Or Too Late To Buy?

Just the other day a client of mine said to me “Steve, what’s the deal with all of the Gold ads that I’ve been seeing lately?”

I know, it’s as if everyone is urging us to sell our jewelry or invest in gold or gold coins.

I know from experience that it’s a sign. It’s a big fat market signal. But I’ll get into that in a minute.

Investors tend to flock to gold when there is instability in the global stock or currency markets. The reason for this is gold is viewed as a safe haven or a hedge for stocks or currencies. Therefore, if you’re using gold in your portfolio to hedge against any downside risk then that could be a good decision. However, if you’re interested in taking your money for retirement and buying gold in expectation of earning crazy high rates of return, then you may want to think twice about taking this risk.

History proves that during U.S. economic recessions gold tends to trade relatively high relative to its historic average. The question now becomes, since we’re not in a recession why is gold still trading so high? Well here may be a few answers...

The constant uptrend in price for the past two years has been partly a result of the dramatic increase in demand for the precious metal from developing countries, mostly China and India.

For example, India’s consumer demand for gold (jewelry, bars, and coins) is a whopping 1,035 tons, China demands a second of 714 tons, Europe is third with 306, and the U.S. and the Middle East fall in last at nearly 239 & 225 tons respectively, according to the World Gold Council. The demand for the yellow metal is extremely high, which helps to keep gold prices high.

But there are other considerations as well.

Gold has never been easier to buy and sell as an investment as it is today and the reason is the introduction of a new type of investment called the exchange traded fund or ETF. Used to be that in order to buy gold as an investment, one had to purchase the bullion from a reputable source and have them store it in a vault which required you to pay storage fees. You had to be certain the gold was certifiable and buying and selling came with the additional cost of big commissions for every transaction.

Today, through the ETF, one can just buy it and sell it like a stock. Every share represents a certain fraction of actual gold sitting in vault and the price of the ETF very closely tracks the price of the precious metal.

Making it easy to buy and sell, attracts more investors, especially great pools of capital from hedge funds, institutions and thousands of small investors.

This will lead to higher prices as speculators continue to push up the value of the ETF for trading purposes only. This price movement does not take into account the actual fundamentals of supply and demand.

Keep in mind, that what goes up in speculation can also come down in speculation. Once rising consumer prices start to taper off and the world economies and currencies start to repair themselves into better shape, precious metal may not look so attractive and prices could come down like a rock. All you need is for Gold to revert back to its historic average price and you would see the metal decline significantly in value.

Pinpointing the exact time when a peak in the price will turn into a valley is pretty much impossible; no one has a crystal ball, but one must be aware and prepare for the eventuality of falling gold prices.

Here's another consideration to remember: the best investments are always those that actually are productive in nature. For example, investing in an oil refining company that produces refined oil or a manufacturing company that produces consumer goods would be considered great investment prospects. Investments which generate cash which can be reinvested or used by investors to live on are the cornerstone for creating real wealth. Gold however, produces nothing. No income, no jobs, or any economic value. It serves no industrial purpose. Its price is only driven by supply and demand for items of adornment, or as a rock to hide under in bad economic times.

Simply put, gold is has been an investment over time.

So if you're a speculator and you're in the position to speculate with your money then do so of course, but buyer beware and good luck. However, if you're nearing retirement or are already retired, you may want to think twice. Ask yourself: Is buying gold now an expression of the "Greater Fool" Theory. This is the idea that the only reason to buy

something is with the hope that you can sell it to someone who is a greater fool than you.

Gold may be at that point right now, just like real estate was in 2005 and Internet Stocks. It seems most of the best returns have already been earned by the investors who got in a few years ago. If you're looking to play the gold commodity now then it may be a little too late.

So, getting back to the big, fat market signal I was talking about earlier, Remember, by the time an investment is marketed to the general public as we see today in television ads to buy or sell gold, or the ADS we saw 6 years ago to buy and sell real estate or anything touting "next big" investment, it's already too late to get in.

These signs are indicative of a peak and soon due for a reversal. History has proven this theory over and over again. Oil and Gas in the 70's and 80's, internet stocks in the late 90's, Real Estate in the mid 2000's and with structured products like the mortgage backed securities that played a part in nearly causing Armageddon in 08'.

The point is, when things are extremely popular and it has become the new "hit sensation", when it pertains to investments that is, stay away from it, and if you own any of it now is the time to sell.